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hozzáférhetőségének együttes javítása a
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CHAPTER 1 - European Integration

Learning Outcomes

When finishing this chapter, you should be able to understand:

- ✓ The difference in meaning of the terms 'European Economic Community', 'European Community' and 'European Union'?
- ✓ How and why the membership of the European Union has changed over the years?
- ✓ What we mean by integration, and its various stages?
- ✓ What is the *acquis communautaire*?
- ✓ What we mean by the term “subsidiarity”
- ✓ The importance of the EU in the world economy

INTRODUCTION

In 1951, the Treaty of Paris established the European Coal and Steel Community (ECSC), with the aim of increasing cooperation in Europe. The founding countries of the ECSC were Belgium, France, West Germany, Italy, Luxembourg and the Netherlands. Following the success of the ECSC, the founding ‘fathers’ broadened their cooperation by signing the Treaties of Rome in March 1957, establishing the European Economic Community (EEC) and the European Atomic Energy Community (EURATOM). The aim of the EEC was to create a common market based on the freedom of movement of people, good and services and capital. In 1968, customs duties between the

countries of the EEC were removed and the first common policies relating to agriculture and trade were introduced. Alongside the EEC, the EURATOM was established to promote the pacific use of nuclear energy in Europe.

EC leaders felt the Communities could be further improved. Under the Merger Treaty, all three communities were fused into one, managed by the Single Commission, Council and Assembly. This was a significant step towards the EU.

As the EC grew, its leaders realised they needed to enhance the free movement of goods and services. This would help the EC create wealth and jobs. Consequently, they created the single market, undoubtedly one of the EU's greatest achievements.

The Treaty of Maastricht signed on 7th February 1992, established the European Union (EU) on the basis of three pillars: the European Communities, the Common Foreign and Security Policy (CFSP), and the Police and Judicial Cooperation in Criminal Matters (JHA). It introduced the concept of European citizenship, enhanced the powers of the European Parliament and launched the economic and monetary union (EMU).

The need for solutions to new problems led to the *Treaty of Amsterdam*. The Member States felt the need to enforce the freedom of movement to boost the EU's economy. Thus, the Treaty of Amsterdam included new provisions on the Schengen Agreement into the EU framework. At the time, Schengen was still an intergovernmental form of cooperation between 5 Member States.

The *Treaty of Nice*, signed in 2001, streamlined the institutional system in a bid to maintain efficiency in preparation for the fourth and largest enlargement of the EU.

After the 5th enlargement, the EU faced new bureaucratic challenges. As a result, the Lisbon Treaty (signed in 2007) simplified the working methods, voting rules and created a President of the European Council. In addition, the

Treaty created the post of High Representative of the Union for Foreign Affairs and Security Policy. This strengthened the EU's presence in the international sphere.

However, it is important to mention the future of the EU. Today the EU is facing certain problems like nationalism, Brexit, refugee crisis, and more. How will the EU handle these problems? Will they manage to keep everything in control?

1. Questions of terminology

The term 'European Economic Community' (EEC) dates from the Treaty of Rome (which came into force 1 January 1958). It was one of the three European Communities, the others being the European Coal and Steel Community or ECSC, and Euratom, initially created to coordinate the civilian use of nuclear energy. The institutions of the three Communities were fused



from 1967 when the 1965 Merger Treaty came into force.

In July 2002 the ECSC was formally wound up, and its assets and liabilities were transferred to the European Union (EU). The use of the term 'European Community' dates from a resolution of the European Parliament of 1975 when it was decided to drop the term 'economic'. This term was confirmed formally with the Maastricht Treaty.

In the *Treaty of Rome* the founders of the original EEC laid the foundations for working towards 'an ever closer union'. According to the *Treaty of Maastricht* (which came into force in 1993), this objective had been reached: With this treaty the European Community was reinforced and flanked by two other 'pillars': the Common Foreign and Security Policy (CFSP) and Justice and Home Affairs (JHA). The three together formed the European Union.¹

The Lisbon Treaty (which came into operation on 1 December 2009) abolished the pillar structure, the *European Union* replaced and succeeded the European Community, taking over all its rights and obligations. This meant that the EU (rather than the EC previously) has *legal personality and can sign international treaties and participate in international organizations* such as the World Trade Organization .

The *Lisbon Treaty* is composed of the *Treaty on European Union* (TEU), the *Treaty on Functioning of the European Union* (TFEU) and numerous protocols. The Treaty replaced the term 'Community' everywhere with 'Union' in the two treaties.

¹ As a result of the *Treaty of Amsterdam* (which came into force in 1999), many aspects of JHA were brought under the Community pillar (which covered areas such as the Common Agricultural Policy, the Common Commercial Policy, the Single Market, Competition Policy and Economic and Monetary Union). The name of the third pillar was changed: Police and Judicial Co-operation in Criminal Matters (PJCCM).



2. The Common Foreign and Security Policy

The Common Foreign and Security Policy (CFSP) is one of the external relations instruments of the EU. According to the Lisbon Treaty (Article 25 TEU), the EU pursues the CFSP by: indicating general guidelines; adopting decisions defining joint actions and positions to be taken by the EU. In 1992 at a meeting in Petersberg near Bonn the role of the EU was defined in what became known as the Petersberg tasks: humanitarian and rescue missions, peacekeeping and crisis management. In 1999 the EU agreed on the development of a common European Security and Defence Policy (ESDP) renamed the Common Security and Defence Policy (CSDP) in the Lisbon Treaty.

In terms of economic strength the EU is already an international actor. The Common Commercial Policy was one of the first Community policies to be

implemented, and the EU is a major trading bloc. The EU member states have difficulty in reaching common positions on foreign policy and defence issues. There are differences between the member states and countries often act unilaterally with little or no consultation. The various member states arrived at the integration process with very different historical background in terms of traditional alliances, geographical situation, culture. From 'Justice and Home Affairs' to 'Freedom, Security and Justice'

With increasing tendency towards abolition of border controls between member states, there was a need for more cooperation in combating such as terrorism, organized crime and migration.² However, governments are reluctant to sacrifice sovereignty on such sensitive issues, so common EU policies were slow to develop. As set out in the Maastricht Treaty, Justice and Home Affairs involved cooperation between the police, judicial, immigration and customs authorities of the member states in order to jointly prevent and combat crime. The areas of cooperation covered both civil and criminal law. The Maastricht Treaty also aimed at promotion of an European citizenship, setting out four special rights, which were reiterated in Article 20 (TEU) of the Lisbon Treaty:³

The Treaty of Amsterdam called for the development of the EU as an area of 'Freedom, Security and Justice'. This entailed a number of issues, including

² Over time national solutions to resolve such questions appeared increasingly inadequate. The collapse of the Soviet Union, the events of 11 September 2001, and the increase in immigration pressures, in particular with the unrest in Tunisia, Libya and elsewhere, added a new urgency to the question.

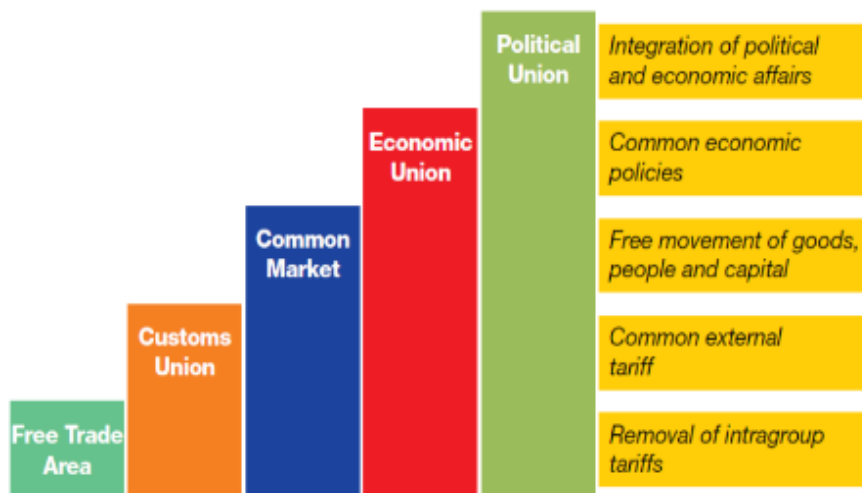
³ Freedom to move and take up residence anywhere in the EU. Any EU citizen living in another member state has the right to vote or stand in local and European elections. Any EU citizen can use the diplomatic and consular activities of another EU country in any part of the world where their own country is not represented. An ombudsman was to be attached to the European Parliament in order to address alleged cases of maladministration by EU institutions.

visas, asylum, immigration and other policies relating to the free movement of people.

3. The stages of integration

The definition of economic integration can be defined as the elimination of barriers to the movement of products and factors of production between a group of countries and the introduction of common policies.

Following the pioneering work of Balassa (1961), the traditional literature on integration refers to different 'stages' in the process. As explained below, these stages are: a free trade area, a customs union, a common market, economic and monetary union and political union. Tinbergen (1954) made the distinction between negative integration (the removal of barriers to trade) and positive integration (the introduction of common policies, and building of common institutions). The classification remains useful to indicate different forms of integration.



3.1 Free trade areas

The member states remove all barriers on trade between themselves but retain the freedom to implement different commercial policies towards third countries.⁴

3.2 Customs unions

The member states remove all barriers on trade between themselves and introduce a common external commercial policy (for instance a common external tariff) towards the rest of the world. Examples of customs unions include the EEC, which had created a customs union by 1968, and that between the EU and Turkey which came into operation from 1995, but which largely excluded agricultural products.

3.3 Common markets

These are customs unions, which also allow for free factor mobility. In other words, a common market entails the four freedoms: freedom of movement of goods, services, labour and capital.⁵

⁴ *An example of a free trade area is the EFTA (the European Free Trade Association), which was set up in 1960 by seven European countries as an alternative to joining the EEC .A further example is NAFTA (the North American Free Trade Agreement), which came into operation between the USA, Canada and Mexico in 1994.*

⁵ During the early years the Community was sometimes called the 'common market', although this description was not very accurate as the then EEC was more like a customs union with certain sectoral policies (notably the Common Agricultural Policy) financed largely through a Community budget.

3.4 Economic and monetary union

An economic and monetary union should include the following elements: a common market; central control of monetary and fiscal policies; a common money or complete convertibility among national currencies with no possibility of exchange rate adjustments; and a common authority which acts as a central bank. In the case of the EU it was decided to introduce a single monetary unit (the euro), a common monetary policy, coordination of fiscal policy through the Stability and Growth Pact and a European Central Bank in Frankfurt.

3.5 Political union

Political union involves a central authority that has supranational powers similar to those of a nation's government over various policy area.

4. Early views of approaches to integration

Early views were influential in shaping the formation of the Community. The aim here is to indicate a few of the views of particular importance in influencing the early development of integration.

The federalist approach calls for the immediate creation of a political union with transfer of many of the sovereign rights and obligations of the member states to a supranational federal authority." Early US history offers many examples of the federalist approach. ⁶*Functionalists* such as Mitrany (1966) advocated a form of integration that was pragmatic, flexible and technocratic. In contrast, the neofunctional approach developed, in particular, by Haas (1958), Lindberg (1963) and Schmitter (1970) brought the functionalism of

⁶ For instance, the Constitutional Convention of 1787 was concerned with wresting powers from the individual states in a way that was palatable to them. The various states had distinct histories, often dating back nearly two centuries, and were reluctant to relinquish their autonomy to an untried central authority.

Mitrany down from international spheres to the more concrete case of regional integration between a group of neighbouring countries. At the centre of the neofunctionalist approach is the idea of functional spillover, i.e. that integration in one sector will generate impetus for integration in other sectors. *Bache et al.* (2011) identify another aspect of neofunctionalism as 'political' spillover, whereby both supranational actors such as the European Commission, and subnational actors such as interest groups become the drivers of integration.⁷

5. The *acquis communautaire*

*The acquis communautaire is literally 'what the Community has achieved'. It consists of the body of EU legislation, practices, principles and objectives accepted by the member states.*⁸ This is referred to primary legislation; legislation enacted at the EU level and judgments of the European Court of Justice ; other acts(legally binding or not) adopted within the EU framework, such as resolutions, declarations, statements, recommendations and guidelines; and the treaties of the EU with third countries. Progress in EU accession negotiations depends on the speed with which the candidate countries can take on and implement the *acquis communautaire*.

⁷ At the subnational level, interest groups in an integrated sector have to deal with the international organization responsible for their sector. The groups would gradually transfer their activities and loyalties away from national governments towards the supranational authority. The intergovernmental approach maintains that the member states should retain their sovereignty, but should cooperate to achieve certain economic or political objectives, such as trade liberalization.

⁸ *It is composed of: - the treaties, especially the Treaties of Rome, the Single European Act, the Maastricht Treaty, the Treaty of Amsterdam, the Treaty of Nice and the Treaty of Lisbon (signed and came into force in 2009).*

6. Subsidiarity

In practice, difficulties may arise in deciding which is the appropriate level of government to take decisions on various policy areas. Subsidiarity is the principle that decisions should be taken at the lowest level that permits effective action 'as closely as possible to the citizens'.

7. The competences of the EU

A protocol to the Amsterdam Treaty confirmed that Community actions should not exceed what is necessary to realize the objectives of the Treaty, and this has become known as the 'principle of proportionality'. The Lisbon Treaty (Articles 2 to 6 TFEU) classifies the policy areas of the EU according to: *exclusive competence*, where only the EU may legislate or adopt legally binding acts; *shared competence*, where the competence to legislate and adopt legally binding acts is divided between the EU and member states.

With the Maastricht Treaty the European Community was reinforced and flanked by two other 'pillars': Justice and Home Affairs, and the Common Foreign and Security Policy. The three together formed the European Union. The Lisbon Treaty abolished the pillar structure, and the European Union replaced the European Community as a legal personality. Economic integration can be defined as the elimination of barriers to the movement products and factors of production between a group of countries (negative integration) and the introduction of common policies (positive integration).



EXERCISES

Questions for study and review

1. Define 'integration' and indicate the different stages of integration.
2. What are the different approaches to integration?
3. What do we mean by the term *acquis communautaire*?
4. What do we mean by the term 'subsidiarity'?
5. What policies do you think should be the responsibility of the EU?

CHAPTER 2 - A Brief History of European Integration

Learning Outcomes

When finishing this chapter, you should be able to understand:

- ✓ The initial failure to create a supranational organization in Europe after the Second World War
- ✓ The purpose of setting up the European Coal and Steel Community
- ✓ The failure of early attempts to promote European cooperation on defence and to set up a common policy on agriculture
- ✓ Why the integration process gained a new impetus in the mid 1950s
- ✓ The principal objectives and policies set out in the Treaty of Rome
- ✓ The main elements of the European Economic Community (EEC) in the 1960s: trade and agriculture
- ✓ The 1969 Hague Summit: deepening, widening and completion of the integration process
- ✓ The years of Eurosclerosis in the 1970s
- ✓ Why the Single Market project was introduced, and its main features
- ✓ The Maastricht Treaty, economic and monetary union, and the economic crisis
- ✓ The ongoing enlargement process; the Mediterranean Programme and the European
- ✓ Neighbourhood Policy
- ✓ The Lisbon Treaty and beyond

INTRODUCTION

The main aim of this chapter is to provide an overview of the chief events leading to the creation of the EEC in 1958, and the most important developments in its subsequent history.

1. The origins of European integration

The idea of a united Europe dates back several centuries, but in the years following the Second World War it acquired a greater urgency. The aim was to make another war in Europe materially impossible, and to cooperate in the postwar reconstruction process. At the same time, the creation of the Eastern bloc and the perceived Soviet threat left Western Europe feeling divided and vulnerable. After the war the USA and the USSR emerged as the two superpowers, and it became increasingly evident that only a united Europe would carry weight at an international level.

During the early years, most of the initiatives to carry forward the integration process came from France, usually backed by Germany and the Benelux countries. The other 'large' founder member, Italy, often appeared confused and contradictory. British ambivalence towards the integration process soon became apparent. Britain had emerged victorious from the war, participating in meetings such as Yalta to create a new world order. Great importance was attached to the 'special relationship' with the USA.

Background: The Idea of European Unity

The goal for European Unity dates back to the 18th century where several attempts were made to unite Europe under one nation. This was attempted by Napoleon and Hitler but both failed miserably. However, other attempts were

made like at enforcing European *political* integration or potential *economic* benefits proved to be attractive for political elites. After the first World War a peaceful integration started to emerge and it was first a peaceful coexistence of nation states rather than integration. The ultimate root for official European unity started straight after the aftermath of WWII. After the war Europe began a process of both economic and political reconstruction.

The End of the War, Federalism, and the Hague Conference

The War in Europe had destroyed the whole infrastructure, and disrupted the economic production. Roads, railways, and bridges has been destroyed because of the Germans in its attempt to slow down the allied forces. The goal was to create Europe as one federalist state. First attempt for unity was the European Union of Federalists (EUF): creating a federalist constitution for Europe. The Hague conference led to the creation of the Council of Europe (founded in 1949 as a result of The Hague conference in 1948). To conclude, European Integration was not to be achieved in one great act of political will, because the will was not there. In 1947, the attention of governments was still focused on national economic reconstruction. Britain would remain outside the idea of a United States of Europe

The Cold War

After World War II ended, an agreement was reached at an allied summit meeting in Yalta in 1945 to divide Europe at the end of the war into different zone. Unfortunately, the allied miscalculated the Soviets by favouring their decisions and soon Europe was divided according to Churchill by an “iron curtain” between the communist east and capitalist west. The Truman Doctrine was one problem and another problem was the Marshall Plan or Marshall Aid.⁹

The German Problem



The problem of what to do with Germany became an increasing debate about the future of Europe. It was still the question of how to prevent the reemergence

⁹ It involved the United States giving a total of \$13 billion in financial aid to the states of western Europe. Marshall Aid offered an injection of dollars into the European economy, which would finance trade between the European states and the United States, and trade between the European states themselves. The United States insisted that decisions on the distribution and use of Marshall Aid be taken by the European states jointly.

of a threat to their sovereign independence from Germany itself. The Treaty of Dunkirk between Britain and France in March 1947, and the Treaty of Brussels between Britain, France, and the Benelux states in March 1948 produced the military alliance in order to protect themselves from Germany. However, the French Government focused more on preventing another German state. They rather want to keep Germany under allied occupation. As the Cold War was rapidly growing, this idea was soon abolished. The other reason why this idea was not possible is because the British and the Americans did not want to create the same mistakes like in the Treaty of Versailles. The best solution for the Anglo-Americans was to prepare their zones into German independence. The French had no choice but to agree and the new Federal Republic of Germany came into existence in 1949.

The first European organization to be created after the war was the UNECE (United Nations Economic Commission for Europe), which was set up as a regional organization of the UN in Geneva in 1947. Its initial aim was to carry out economic reconstruction and encourage cooperation among all the states of Europe: East, West and Central. ¹⁰

A body known as the Committee for European Economic Cooperation (CEEC) was set up. The OEEC led to the setting up of the European Payments Union in 1950, and was the forum in which the six founding members of the EEC began the discussions that led to the Treaty of Rome. The CEEC was transformed in April 1948 into a body called the Organization for European Economic Cooperation (OEEC). After the winding up of Marshall aid, in 1961

¹⁰ Soon after creation of this organization, the EastWest division of Europe became a reality and the USSR feared Western influence on its satellites. The UNECE was to prove the last panEuropean organization for many years. It remained in operation as a useful research centre for EastWest studies, and subsequently for analysis of the transition of countries in Central and Eastern Europe and the former Soviet Republics into market economies and functioning democracies.

this organisation was transformed and became the OECD (Organisation for Economic Cooperation and Development)

2. Background to the integration process: the 1940s

With the start of the Cold War, the *Treaty of Brussels* was signed in 1948. It expanded upon the Dunkirk Treaty which was a military pact between France and the United Kingdom who were concerned about the threat from the USSR following the communist takeover in Czechoslovakia. The new treaty included the Benelux countries and was to promote cooperation not only in the military matters but in economic, social and cultural spheres.

In 1949 the *North Atlantic Treaty Organisation* was created. It expanded the Brussels treaty members to include Denmark, Iceland, Italy, Norway, Portugal as well as Canada and most notably the United States. Military integration in NATO sped up following the first Soviet atomic bomb test and the start of the Korean War which prompted a desire for the inclusion of West Germany.¹¹

3. The European Coal and Steel Community

The combination of US aid and the determination of the German people soon led to postwar recovery of the German economy. The question became how to allow Germany to regain her powerful position in what were then the strategic industries of iron, steel and coal production. At the time a large majority of all energy needs in Europe were met by coal. Moreover, it was realized that Allied control of coal and steel production in the Ruhr could not continue indefinitely.

¹¹ In the same year as the Brussels treaty, Sweden presented plans for a Scandinavian defence union (of Sweden, Denmark and Norway) which would be neutral in regards to the proposed NATO. However due to pressure from the United States, Norway and Denmark joined NATO and the plans collapsed. Although a "Scandinavian joint committee for economic cooperation" was established which led to a customs union under the Nordic Council which held its first meeting in 1953. Similar economic activity was taking place between the Benelux countries.

The Schuman Plan was elaborated by Jean Monnet, and put forward by the French foreign minister, Robert Schuman.

The Schuman Plan aimed at making war in Europe not only 'unthinkable, but materially impossible' through the creation of a common market for iron, steel and coal in Europe. For Germany this offered a passport to international respectability and an end to Allied occupation and checks on economic recovery (Swann, 2000). For France the plan provided a means of concluding French occupation of the Saarland, since handing the Saarland back to Germany would be more acceptable if Germany formed part of a common market in coal and steel. The plan was also attractive to the federalists, who were disappointed by the failure to transform the OEEC into a supranational organization.

The *European Coal and Steel Community* (ECSC) was a six-nation international organisation serving to unify Western European coal and steel production. It was the first organisation to be based on the principles of supranationalism. Its creator, French foreign minister *Robert Schuman*, hoped it would eventually lead to the establishment of the States of Europe. The present European Union traces its roots directly to the ECSC. The organisation was first proposed by Schuman on 9 May 1950. The Schuman Declaration had several distinct aims.

The European Coal and Steel Community (or 'black pool') was set up in 1951 with the aim of making war in Europe 'materially impossible'.

- It would mark the birth of a united Europe
- It would make war between Member States impossible
- It would encourage world peace

- It would lead to the unification of Europe democratically, including both East and West Europe separated by the Iron Curtain
- It would create the world's first supranational institution and
- the world's first international anti-cartel agency
- It would create a single market across the Community
- This, starting with the coal and steel sector, would revitalise the whole European economy by similar community processes
- It would improve the world economy and the developing countries, such as Africa.

The ECSC was primarily conceived with France and Germany in mind.

The coal and steel industries were essential for the production of munitions. Schuman believed that by uniting these two industries across France and Germany under an innovative supranational system he could make war unthinkable and impossible.

The declaration led to the Treaty of Paris (1951) forming the European Coal and Steel Community, which was formed by "the six": France, Italy, the Benelux countries (Belgium, Netherlands and Luxembourg) together with West Germany. The United Kingdom refused to participate due to a rejection of supranational authority. The common market was opened on 10 February 1953 for coal, and on 1 May 1953 for steel.

During the existence of the ECSC, steel production improved and increased fourfold. Coal production however would decline but its technology, safety and environmental quality would improve. ECSC helped deal with crises in the industry and ensured balanced development and distribution of resources.

4. Attempts at cooperation in defence

Because of the fear of Soviet threat, it was to be expected that a common defence policy would be one of the main aims of the European integration process. As a first response to creation of the Eastern bloc, in 1948 France, the UK and the Benelux countries signed the Treaty of Brussels which provided for a system of mutual assistance in the event of attack. Western defence efforts acquired an Atlantic flavour from 1949 when these countries joined with the USA, Canada, Denmark, Italy, Norway, Portugal and Iceland to form NATO (North Atlantic Treaty Organization).¹²

Negotiations among the six future founding members of the EC went ahead with a view to creating a European Defence Community (EDC). The institutional structure of the Community was to be similar to that of the ECSC, with a Joint Defence Commission, a Council of Ministers, a Parliamentary Assembly and a Court of Justice.¹³ In 1952 the Treaty on the EDC was signed, but required ratification by the six participating states. In 1954 the French parliament refused to ratify the Treaty (though the other five countries involved had done so). There was reaction to the supranational element of the proposal, with the French Right objecting to the creation of an army under European

¹² With the outbreak of the Korean War in 1950, the USA and the UK were in favour of German rearmament. France was against this idea and also opposed Germany becoming a member of NATO, instead proposing the creation of a European army with West German participation (the Pleven Plan). The UK was not opposed to such an initiative but was against being directly involved, partly because of the 'special relationship' with the USA and partly because the French proposal contained supranational elements.

¹³ There was to be a combined army with a single uniform and flag, and its own budget. In order to ensure control of the European army, political integration was also to be strengthened, and in 1953 a draft proposal for the creation of a European Political Community was also presented. It was envisaged that after a transitional period, the institutions of the ECSC, the EDC and the European Political Community would be fused.

control, especially as the UK was not involved. At the same time the French Left feared German rearmament.

The solution to this impasse was the creation of the Western European Union (WEU) in 1955. This was a traditional intergovernmental organization whose founding members were the original European Communities (EC; 6) plus the UK. Its aim was to provide a European framework in which Germany could be rearmed and enter NATO, and in which the last vestiges of Allied occupation of Germany could be removed. In 2010 it was announced that the WEU would be disbanded, following the new powers for foreign and security policy given to the EU by the Treaty of Lisbon.

5. Towards the Treaties of Rome

The UK and the Scandinavian countries were in favour of the creation of a free trade area and cooperation on agricultural questions within the OEEC framework. In this context any supranational initiative could be blocked as each of the member states had the power of veto.

The six founding members of the EEC ('the Six') were not satisfied with this arrangement and in 1955 the Benelux countries presented a Memorandum. This called for the creation of a common market, and specific action in the areas of energy and transport. Though political union was recognized as an ultimate aim, the practical difficulties encountered in its implementation. The aim was to 'work for the establishment of a United Europe by the development of common institutions, the progressive fusion of national economies, the creation of a common market and the progressive harmonization of social policies' (1955 Memorandum). The foreign ministers of the Six at the Messina Conference considered the ideas of the Memorandum. It was agreed to set up an intergovernmental committee under the Belgian foreign minister, *Paul*

Henri Spaak, which would study the problems and prepare the treaties for establishing a common market and energy pool.¹⁴

Attempts to set up a European Defence Community and a 'green pool' for agriculture failed, largely because of France. Article 2 of the Treaty of Rome set out the main objectives of the EEC. Progress in implementing the measures was very uneven, but a Common Commercial Policy and the Common Agricultural Policy were soon operating.

In Venice in 1956 the foreign ministers of the Six accepted the results of the Spaak Committee. The work began on drafting of the two treaties establishing the European Economic Community and Euratom. These were signed in Rome in March 1957, and entered into force from January 1958.^{15 16}

Faced with the decision of the Six in 1960 the European countries that then preferred intergovernmental cooperation decided to create *EFTA* (European

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Two external events help to explain the speed with which the Six worked towards agreeing the Rome Treaties: Suez and the Soviet invasion of Hungary. In 1956 as a reaction to Egyptian raids across the border, Israel invaded Egypt and was subsequently supported by an AngloFrench force. France and Britain opposed Nasser's nationalization of the Suez Canal in which they held shares. Fearing Soviet intervention, the USA exerted diplomatic and economic pressures, which led to the withdrawal of the AngloFrench troops.

¹⁶ The same lesson emerged from the example of Hungary. In 1953 the Nagy government was permitted to introduce certain reforms such as the freeing of political prisoners, the relaxing of political and economic controls and the ending of collectivization. In less than two years Rakosi replaced Nagy, but in the face of widescale demonstrations, he was allowed to return to power in 1956. Nagy then declared Hungarian neutrality and the withdrawal from the Warsaw Pact, and released Cardinal Mindszenty, the primate of Hungary, from prison. In 1956, despite fierce resistance, Soviet troops occupied Hungary and Nagy was executed.

Free Trade Association). The founder members of EFTA were the UK, Norway, Sweden, Denmark, Austria, Switzerland and Portugal. Subsequently Iceland (in 1970), Finland (in 1986) and Liechtenstein (in 1991) joined. As its name suggests, EFTA involved the creation of a free trade association for industrial products. Agricultural products were largely excluded from this arrangement.

6. The Treaties of Rome

The Treaties of Rome (signed in 1957 and entered into force in 1958) provide the legal basis for establishment of the EEC and the Euratom. The Euratom was created to coordinate the research programmes of member states for the peaceful use of nuclear energy.

The Treaties are among the most fundamental elements of the *acquis communautaire*. The Treaty of Rome establishing the EEC consists of 248 articles. Article 2 sets out the main objectives:

- Harmonious development;
- Continuous and balanced expansion;
- Increased stability;
- Rapid growth in living standards;
- Closer links between the member states.

It shall work for the sustainable development of Europe based on balanced economic growth and price stability, a competitive social market economy, aiming at fulfil employment and social progress. It shall promote scientific and technological advance and a high level of protection, and improvement of the quality of the environment. It shall help economic, social and territorial cohesion, and solidarity among Member States.

Article 3 of the Treaty of Rome listed the mechanisms by which the objectives were to be realized in a twelve year transition period from 1958 until 1969.

The measures included:

- the creation of a common external policy and, in particular, a common external tariff;
- the elimination of obstacles to the free movement of people, capital, goods and services;
- a common agricultural policy;
- a common transport policy;
- the introduction of means to ensure fair competition;
- the coordination of the economic policies of the member states to avoid balance of payments disequilibria;
- the creation of a European Social Fund to improve employment opportunities and raise living standards for workers;
- the creation of a European Investment Bank to help reduce regional disparities;
- special trade and development arrangements for colonies and former colonies.

The elimination of tariffs on intra EC trade and the introduction of the common external tariff were largely completed by mid 1968, only limited steps were taken to remove nontariff barriers and to free factor movements within the Community. As a result, these objectives had to be relaunched many years later

in the programme to complete the Single Market from 1993.¹⁷ According to Swann (2000), three main factors account for the inclusion of a common transport policy among the objectives of the Treaty of Rome:¹⁸

The Treaty was remarkably unencumbered with details concerning the implementation of a common policy. As late as 1985 there was a judgment of the European Court of Justice against the Council for failing to introduce a common transport policy. Despite the mention of coordination of economic policies, the Treaty contains no specific commitment to macroeconomic coordination or to economic and monetary union.¹⁹

The European Social Fund (ESF) and European Investment Bank (EIB) envisaged by the Treaty were operational at an early stage. The provision for special trade and aid arrangements with colonies and former colonies was a concession to France who wanted to maintain her links. Trade preferences to these countries were extended throughout the Community, and aid was granted through the European Development Fund (EDF). From the 1960s many of

¹⁷ Linguistic and cultural differences partially account for the relatively limited increases in the movement of people, and similarly for the slow progress in the recognition of qualifications and in obtaining social security benefits in other member states.

¹⁸ Transport costs could act as a trade barrier, and measures to promote a cheap, efficient transport system in the Community could help to stimulate trade. The Treaty of Rome was a compromise, balancing the national interests of the founding countries, and the Netherlands in particular was anxious to include transport policy as part of the deal. Transport, especially through Rotterdam and along the Rhine, makes an important contribution to Dutch GDP. Progress in introducing common measures on transport policy was slow.

¹⁹ Various considerations (Tsoukalis, 1997) help to account for the reticence of the Treaty on this point: The importance of the dollar in the international monetary system at the time meant that there was little need or purpose to establish a regional monetary arrangement in Europe; Reasons of political feasibility (quite enough was already being taken on with the creation of the common market); Differences among the member states; In the golden age of Keynesian demand management (which entailed active intervention in an attempt to regulate economic activity), member states were reluctant to sacrifice autonomy of fiscal and monetary policies.

these countries gained independence, and in 1963 the Yaoundé agreements covering trade and aid arrangements were signed between the EC and former French colonies in Africa.

The entry of the UK into the Community in 1973 led to a reappraisal of development policy, resulting in the first Lomé Convention of 1975. Subsequent agreements followed in 1980, 1985 and 1990 and the Cotonou Agreement of 2000. The Cotonou Agreement covered 79 ACP (African, Caribbean and Pacific) countries. From 2008 a process began of replacing the Cotonou Agreement with Economic Partnership Agreements (EPAs), as these arrangements were more in line with WTO commitments.

7. The European Community in the 1960s

Growth was rapid and employment in the EEC countries reached unprecedented levels. In general the economic performance of the Six outshone that of the USA and the UK. The tariffs and quantitative restrictions on intra EC trade were dismantled and the common external tariff was introduced. The Six prepared common positions to negotiate as a single actor in the GATT (General Agreement on Tariffs and Trade) Kennedy Round over the 1964-67 period.

A precondition for agreeing tariff reductions for third countries was that the common external tariff should be in place. During the 1960s, trade, and in particular intraEC trade, grew faster than output. Growth eased the adjustment process rendering the reduction or elimination of trade barriers less painful.

The emergence of the EEC Six as a single actor and their successful economic performance encouraged the UK to apply for membership in 1961 and 1967, but on both occasions de Gaulle vetoed the application.

The 1960s also marked the birth of the CAP, which was then regarded by many as the greatest achievement in integration. In 1962, agreement was reached on

the mechanisms for agricultural support, with the decision on the level of the common prices for agricultural products. The Mansholt Plan was presented in 1968 with radical proposals for restructuring EC agriculture in order to raise incomes and efficiency, but only very limited measures to improve the structure of agriculture were implemented.

8. The 1969 Hague Summit

In 1969 Pompidou replaced de Gaulle. At the Hague Summit of 1969 a package was presented which was described by Pompidou as containing three main elements: completion, deepening and enlargement. The deepening process was to consist of gradual progress towards the creation of an economic and monetary union (EMU) by 1980, and the introduction of European Political Cooperation. The first EMU programme met with little success (also because of the difficult economic situation following the 1973 oil crisis), though in 1979 the EMS (European Monetary System) was introduced.

The 1969 Hague Summit called for widening (enlargement), deepening (economic and monetary union) and completion (a settlement to the budgetary question) of the Community.

At the Hague Summit, it was agreed to study the best way of implementing European Political Cooperation (EPC) on the basis of an intergovernmental cooperation. However, progress in developing common positions on foreign policy issues was slow before the 1990s. With de Gaulle no longer on the political scene, the path to further enlargement of the Community was now open. This occurred in 1973 when the UK, Ireland and Denmark became members, while Norway (not for the last time) voted against membership in a referendum.

9. The Community in the 1970s: the years of Eurosclerosis

After the 1973 oil crisis, the EC economy entered a phase of slower growth, higher unemployment, more rapid inflation and falling competitiveness. The process of trade liberalization wavered, and nontariff barriers were applied on trade both within the EC and with third countries in what became known as the 'new protectionism'.

The 1970s and early 1980s were the years of Eurosclerosis or Europessimism, when much of the energy of the Community was spent on quarrels over the budget and agricultural spending.

Divergence in the economic policies and performance of the EC member states meant that the first programme to introduce economic and monetary union had to be shelved. The main energies of the EC member states seemed concentrated on the seemingly endless squabbles about the level of agricultural price support and the EC budgetary mechanisms.

These are often called 'the years of Eurosclerosis or Europessimism', but a few successes must be noted: the 1973 enlargement; the creation of the European Regional Development Fund in 1975; the establishment of the European Monetary System; the introduction of direct elections to the Parliament in 1979, and the entry of Greece in 1981. The path was also prepared for Spanish and Portuguese accession in 1986.

10. The relaunching of integration: the Internal Market Programme

By the mid 1980s there was growing discontent in the Community about poor economic performance and loss of competitiveness, particularly when compared with rivals such as Japan and the USA. Some governments of the

EC member states, (such as Thatcher, Kohl and even Mitterand), were committed to deregulation as a means of stimulating output and trade.

Jacques Delors became president of the Commission in 1985. The strategy chosen to revive the integration process was the completion of the internal market. The objective was to eliminate barriers at the frontiers between member states and promote the freedom of movement of labour, capital, goods and services.

When Jacques Delors became president of the Commission in 1985, his strategy to relaunch the integration process was the completion of the Single Market.

In 1985 France, Germany and the Benelux countries signed the Schengen Agreement, which aimed at the removal of checks on people at borders. Schengen was incorporated into the Amsterdam Treaty (signed in 1997 and entered into force in 1999), and its membership was gradually extended.

Freedom of movement of goods and services entailed eliminating the remaining nontariff barriers on trade between the member states. A key element of the Community's strategy in tackling differences in standards was to rely on the principle of mutual recognition. This was defined in Cassis de Dijon case of 1979 when the European Court of Justice established the general principle that all goods lawfully manufactured and marketed in one member state should also be accepted in other member countries.

The introduction of the Single or Internal Market Programme had the effect of launching a new phase in the integration process. Reform of the Community decisionmaking process was necessary to ensure that all the legislation could be introduced in time to meet the January 1993 deadline for introduction of the Single Market.

11. The Maastricht Treaty, economic and monetary union and the economic crisis

In addition to creating the European Union, the Maastricht Treaty (which entered into force in 1993) envisaged a strengthening of the Community. This would consist of economic and monetary union (EMU), greater economic and social cohesion, some institutional reform (including increased powers for the European Parliament), the creation of European citizenship and the extension of EU competence to new areas.

The Treaty of Maastricht set out the three stages in the process of implementing EMU. It also presented criteria to be satisfied before member states could participate in EMU.

In addition to creating the European Union, the Maastricht Treaty set out the steps for establishing economic and monetary union. The economic crisis created tensions for the eurozone and, in particular, for Greece, Ireland and Portugal.

The third stage of EMU began on 1 January 1999 with eleven countries as full participants; Greece also joined subsequently, Denmark and the UK chose to opt out, and Sweden decided not to participate and remained out on technical grounds. Slovenia adopted the euro in 2007, Malta and Cyprus in 2008, Slovakia in 2009 and Estonia in 2011.

The objective of greater economic and social cohesion in the Treaty was translated into an increase in transfers through the Structural Funds to the poorer regions of the Community. The Treaty was also accompanied by a separate protocol known as 'the Social Chapter', which aimed at improving living and working conditions. The new areas of competence introduced by the Treaty of Maastricht refer to an increased role for the Community in education, culture, public health and the environment.

The international economic crisis from 2007 presented new challenges for the eurozone. The initial reaction of the European Central Bank (ECB) was to reduce interest rates and announce measures to shore up the banking system. Following the collapse of the Lehman Brothers bank in the USA in September 2008, the EU countries agreed a rescue plan to assist their financial sectors and introduce a coordinated fiscal stimulus. In 2010, high levels of public deficit and debt in Greece led to fear of default. After months of delay, in May 2010 agreement was reached on an EU/IMF package of assistance for Greece.²⁰

The eurozone finance ministers also agreed on a permanent European Stability Mechanism (ESM) for dealing with debt crises in the eurozone. In May 2011 a bailout was agreed for Portugal. In September 2010 the Commission presented proposals for reform of EU economic governance. In July 2011 a second bailout was agreed for Greece

12. From the Mediterranean Policy to the European Neighbourhood Policy

There was an attempt to counterbalance the eastward developments of the EU with a strengthening of the EU Mediterranean Policy. At the Barcelona Summit of 1995 it was agreed to set up the **Euromed Programme** to increase aid and create a free trade area in the Mediterranean region by 2010. In 2008 the Barcelona process was relaunched in Paris as the Union for the Mediterranean. The unrest in North Africa and elsewhere in 2011 led to a surge

²⁰ *The EU also decided on a bailout fund for eurozone countries of up to €750 billion, including a special purpose European Financial Stability Facility (EFSF) of up to €440 billion. The ECB also decided to intervene in markets to buy government bonds.*

in migration towards the EU and illustrated the underlying weakness of EU policies towards third countries in the Mediterranean area.

At the Barcelona Summit of 1995 it was agreed to set up the Euromed Programme to increase aid and create a free trade area in the Mediterranean region and this was replaced by the Union for the Mediterranean in 2008. In 2004 the European Neighbourhood Policy was established to provide closer cooperation with EU neighbours that have no prospect of EU accession.

13.From the Amsterdam to the Lisbon Treaty

In 2004 the European Neighbourhood Policy (ENP) was set up to deal with relations between an enlarged EU and its eastern and southern neighbours. The aim was to prevent new dividing lines emerging between the EU and its neighbours, and to enhance security and narrow the prosperity gap on the new external borders of the EU.

The ENP offered EU neighbours greater political, security, economic and cultural cooperation. The ENP is for countries with no immediate prospect of EU membership and covers Ukraine, Moldova and other exSoviet republics, and Southern Mediterranean countries, but not the Western Balkans (given the possibility of accession to the EU by these countries).

14.From the Luxembourg Process and the Lisbon

In 1997 the Luxembourg Process, or European Employment Strategy (EES), was launched.

Concerns with relatively low EU productivity led the **Lisbon European Council of 2000** to launch a 'new strategic goal' aimed at economic, social and environmental renewal for the following ten years. The objective was to create

a knowledgebased economy focusing on better use of information, science, and research and development, and more flexible labour markets.

In 2010 the EU launched the Europe 2020 Strategy, which entailed more coordination of economic policies, the introduction of key targets, and improved monitoring in order to promote smart (knowledgebased), sustainable (environmentally friendly) and inclusive (increasing employment and reducing poverty) growth.

Environmental concerns acquired a growing importance in EU policy and were a central element in both the Lisbon Strategy and Europe 2020. The EU signed the Kyoto Protocol to limit emissions of greenhouse gases between 2008 and 2012. The EU adopted the 2020 package on energy and climate change, which sets binding targets of 20 per cent of EU energy requirements being met by renewable sources, a reduction in energy consumption by 20 per cent, and a 20 per cent cut in greenhouse gas emissions; all by 2020.

15.From the Amsterdam to the Lisbon Treaty

The prospect of enlargement gave a new urgency to the question of institutional reform of the EU as it was necessary to ensure that the decision-making process could function with a growing number of members. The Treaty of Amsterdam (which came into force in 1999) and the Nice Treaty (which came into force in 2003) were intended to introduce the necessary institutional changes for an enlarged EU but fell wellshort of expectations.

In 2007 the Lisbon European Council signed what became known as the Lisbon Treaty, but this was rejected in a first Irish referendum of 2008. Following a second Irish referendum of October 2009, the Lisbon Treaty came into force on 1 December 2009.

EXERCISES

Questions for study and review

- Describe the main functions of the OECD.
- Describe the main objectives of the Treaty of Rome, and the mechanisms by which these objectives were to be realized.
- How successful was the Community in implementing the policies envisaged by Article 3 of the Treaty of Rome?
- What have been the main European integration initiatives since the 1990s?

A chronology of European integration

1945: The history of European integration starts back to the conferences of Yalta and Potsdam where the aim was to establish a new world peace and to split Germany into four zones occupied by different nations (USSR, France, UK, and the US). At Yalta, Churchill called for a prosperous Germany but the USSR, in particular Joseph Stalin wanted to destroy Germany for their actions during WWII. Also, because of Yalta, Europe was split into East and West. The Eastern countries including Poland, Czechoslovakia, and Hungary established communist regimes influenced by the USSR. The call for unity in Western Europe increased more which was very important at that time. During the conference in Potsdam, the relations between the US and USSR deteriorated more due to the presence of nuclear bombs.

1948: The Marshall Plan, also known as the European Recovery Program, channelled over \$13 billion to finance the economic recovery of Europe between 1948 and 1951. The Marshall Plan successfully sparked economic recovery, meeting its objective of 'restoring the confidence of the European people in the economic future of their own countries and of Europe as a whole.' Also, the Marshall Plan functioned as a shield to protect Western Europe from being influenced by communist propaganda, and to prevent communist uprisings like in Turkey and Greece (Truman Doctrine prevented full communist control in Turkey and Greece). With the Marshall Plan the aim for European unity became more realistic.

*1950 :*In a speech inspired by Jean Monnet, Robert Schuman proposes the pooling of coal and steel resources between France and Germany, and any other European country that wishes to join them.

1951 : The **Treaty of Paris** is signed by Belgium, France, West Germany, Italy, Luxembourg and the Netherlands (the 'Original Six'), creating the

European Coal and Steel Community (ECSC). The European Court of Justice (ECJ) is established.

1952 :The Treaty establishing the European Defence Community (EDC) is signed in Paris.

1953: A common market for coal, iron ore, scrap iron and steel is formally established in Europe.

1955: A conference of ECSC foreign ministers in June agrees to encourage free trade between member states through the removal of tariffs and quotas. The Western European Union (WEU) is created. At Messina the foreign ministers of the Six decide to launch a new integration initiative aimed at the creation of a common market, and common policies for agriculture, transport and the civilian use of nuclear energy.

1957: The **Treaty of Rome** is signed by the Original Six as the first step towards establishing the common market, customs union, and free movement of capital and labour. The European Economic Community (EEC) and European Atomic Energy Community (Euratom) are established. The ECJ becomes the court of the EEC to interpret the Treaty of Rome and rule in disputes over EEC decisions.

1958: The first European Commission takes office. The Treaties of Rome enter into force, and the EEC and Euratom are created.

1960 :The European Free Trade Association (EFTA) is set up.

1962 :Key decisions on the Common Agricultural Policy (CAP) are taken. The decision on common prices will not be reached until 1964 and will come into operation in 1967.

1963: French President Charles de Gaulle, vetoes British membership of the EEC on the grounds that Britain lacks commitment to European integration. A second veto follows in 1967.

1965: On 8 April, the Merger Treaty is signed in Brussels. It merges the executives of the ECSC, EEC, and Euratom to become collectively known as the European Communities (EC)

*1966 :*The Luxembourg compromise enters into force, with France resuming its seat in the Council in return for use of the unanimity rule when any country deems an issue to be of 'vital national interest'.

*1967 :*The Treaty merging the EEC, the European Coal and Steel Community (ECSC) and Euratom enter into force.

*1968 :*Remaining customs duties in intraEC trade in manufactured goods are removed eighteen months ahead of schedule, and the Common External Tariff is introduced.

*1969 :*The Hague Summit agrees on proposals to deepen (EMU by 1980), widen (allow Denmark, Ireland and the UK to join) and complete (by introducing own resources) the Community.

1970: The Werner Report sets out a path towards Economic and Monetary Union (EMU); the EC agrees to work towards greater integration and a single market. Proposals are for a customs union, with the removal of all internal customs duties and the application of a common external tariff. Free movement of labour is also guaranteed.

1972: The EC launches its first attempt to harmonise exchange rates: participating governments are required to confine the fluctuations of their currencies within a range of +/- 2.25% against each other. Countries that struggle to do so can request aid in the form of loans. The new system is referred to as the 'snake in the tunnel'.

*1973 :*Denmark, Ireland and the UK join the Community.

*1975 :*The European Regional Development Fund is established. The Treaty of Brussels, giving the European Parliament wider budgetary powers and establishing the Court of Auditors, is signed and enters into force in 1977. The

first Lomé Convention was signed between the Community and developing ACP (African, Caribbean and Pacific) countries. Later Lomé conventions entered into force in 1980, 1985 and 1990 and from 2000 there was the Cotonou Agreement. This is in the process of being replaced by EPAs from 2008.

1977: Customs duties between the nine EC members are completely abolished.

1979: In March, the European Monetary System is launched as a step towards the eventual goal of EMU. It encourages countries to coordinate a central exchange rate under the Exchange Rate Mechanism (ERM). This provides the basis for creating a single European currency in the future (i.e. the Euro). All members apart from the UK join the ERM. In June, direct elections to the European Parliament (EP) are held for the first time (until this point, Members of the Parliament were appointed by national parliaments).

*1981 :*Greece joins the EC, marking the start of a decade of increased expansion and integration

*1985:*The Single European Act is proposed - as a revision of the Treaty of Rome - to revitalise the process of European integration. Jacques Delors is appointed president of the Commission and announces the Single Market Programme. France, Germany and the Benelux countries sign the Schengen Agreement, committing themselves to the gradual removal of checks on people at borders. The Amsterdam Treaty that came into force in 1999 incorporated the Schengen Agreement, which was extended to other EU countries except the UK and Ireland, while Denmark has a partial optout, reserving its position on all questions except visas.

1986: The European flag is unveiled. Portugal and Spain become members of the EC. Spain and Portugal become members of the Community.

*1987 :*The Single European Act enters into force. This modifies the Treaty of Rome, aiming to complete the formation of a common market, which the

earlier treaty had begun: 1992 is set as the deadline for achieving the single market. National vetoes are abolished by introducing Qualified Majority Voting (QMV) in the Council of Ministers for areas relating to the single market (based on 'four freedoms' allowing goods, services, people and capital to move freely throughout the EC). The legislative power of the European Parliament is increased and the basis for a European foreign policy is laid. The Single European Act is the first commitment by member states to create a 'European Union'. Turkey applies to join the EU.

1988 :The financial perspective covering EC expenditure and resources for the 1988-1992 period is agreed and includes a reform of the Structural Funds.

1989 June: Elections to the European Parliament. November: The fall of the Berlin Wall.

1990 German unification . Britain enters the ERM. Two Intergovernmental Conferences (IGC) are launched: the first on EMU; and a second on political union. Economic policy coordination and the removal of obstacles to financial integration are both introduced, as the first stage of EMU.

1991 October. Agreement is reached on the terms of a European Economic Area (EEA) treaty. December: The Maastricht European Council reaches agreement on the Treaty on European Union.

1992 May: The MacSharry Reform of the CAP is agreed. The Maastricht Treaty turns the European Community into the 'European Union' (EU). The Treaty includes developments for monetary union and a chapter on social policy (the UK secures an opt-out from both). It also introduces the concept of EU Citizenship, which gives Europeans the right to live and vote in elections in any EU country

1993 January: Introduction of the Single Market. November: The Maastricht Treaty enters into force.

1994 April: The GATT Uruguay Round is signed at Marrakech. June: Elections to the European Parliament. The European Monetary Institute (EMI) is established to oversee the coordination of the monetary policies of national central banks. The EMI also works towards the creation of the European Central Bank.

1995 January: Austria, Finland and Sweden join the EU. Norway remains out after a referendum that rejected EU membership. A new European Commission with Jacques Santer as president. February: The Barcelona European Summit decides to create Euromed, a free trade area involving Mediterranean countries, by 2010.

1997 July: Agenda 2000. October: Amsterdam Treaty is signed. November: The Luxembourg Process, or European Employment Strategy (EES), is launched. December: The Luxembourg European Council decides to open enlargement negotiations with the Czech Republic, Estonia, Hungary, Poland, Slovenia and Cyprus. The Treaty of Amsterdam is signed, which follows on from the Maastricht Treaty and prepares the EU for eastward expansion. More national vetoes are abolished as Qualified Majority Voting is expanded, and the social chapter of the Maastricht Treaty becomes an official part of EU law. The Stability and Growth Pact is agreed, defining rules and penalties for the member states that form the Eurozone to make sure they keep the amount they spend and borrow under control in order to help create stable conditions for the new currency.

1998 March: Accession negotiations start with five countries of Central and Eastern Europe and Cyprus. May: The Brussels Summit decides to set up the European Central Bank and determines which member states are ready to enter the third stage of EMU. The European Central Bank (ECB) is established in Frankfurt, Germany. It is responsible for setting monetary policy for the Euro countries and managing their foreign reserves. The European Council and

European Parliament agree that 11 of the 15 member states meet the criteria to adopt a single currency.

1998: The European Central Bank (ECB) is established in Frankfurt, Germany. It is responsible for setting monetary policy for the Euro countries and managing their foreign reserves. The European Council and European Parliament agree that 11 of the 15 member states meet the criteria to adopt a single currency.

1999 January: Beginning of third stage of EMU. March: Berlin Agreement on Agenda 2000 (including financial perspective for the period 2000-2006). May: The Amsterdam Treaty enters into force June: Direct elections to the European Parliament. September: New European Commission with Romano Prodi as president. October: The Tampere European Council decides to make the EU an area of Freedom, Security and Justice. December: The Helsinki European Council takes the decision to open accession negotiations with Malta and the other five CEECs that have applied for membership and to treat Turkey as a candidate. Agreement to create an EU rapid reaction force to assist peacekeeping.

2000 February: Accession negotiations begin with Bulgaria, Latvia, Lithuania, Malta, Romania and Slovakia. March: The Lisbon European Council sets the creation of a 'knowledgebased economy' as a priority for the EU. December: The Nice European Council reaches agreement on the text of a new treaty. The Presidents of the EU Parliament, the European Council and the EU Commission formally proclaim the Charter of Fundamental Rights, a nonlegally binding declaration drafted by a group of legal experts, which sets out civil, political, economic and social rights of European citizens and all persons resident in the EU.

2001 June: The Gothenberg European Council reaffirms the objective to complete negotiations with a first wave of candidate countries so they can join

the EU. The Treaty of Nice, which amends the Maastricht Treaty, is signed. This reforms the decision-making processes and prepares the EU for expansion to include ten further members.

2002: 12 EU states introduce Euro notes and coins, Euro notes and coins come into circulation. Coins and notes in national currencies are withdrawn in the euro countries. The Convention on the Future of Europe prepares a draft of the Treaty Establishing a Constitution for Europe, as the Treaty of Paris (which established the ECSC) expires after fifty years. December: Copenhagen European Council confirms the deadline of 2004 for accession of ten applicant countries and indicates 2007 as a possible date for Bulgarian and Romanian accession. A decision on Turkey will be taken in December 2004.

2003: The first troops are deployed under the European Security and Defence Policy (ESDP), following its creation in 1999. The troops are deployed to take over from a NATO mission in FYR Macedonia.

2004: Enlargement goes ahead on 1 May 2004, with 10 new countries joining the EU: Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland and Slovenia. EU leaders sign the agreed text of the Constitutional Treaty. December: The Laeken European Council decides to set up the European Convention to work on drafting a Constitutional Treaty.

2003 March: As part of the Common Foreign and Security Policy the EU takes part in peacekeeping missions in the Balkans replacing NATO, first in the Former Yugoslav Republic of Macedonia, and then in Bosnia and Herzegovina. The European Commission launches the European Neighbourhood Policy (ENP) to deal with relations between an enlarged EU and its eastern and southern neighbours. July: The European Convention completes its work on the draft Constitutional Treaty. October: The Intergovernmental Conference to draw up the Constitutional Treaty begins.

December: The Brussels European Council fails to reach agreement on the Constitutional Treaty.

2004 May: Ten new member states join the EU. June: Elections to the European Parliament. The European Council agrees on the Constitutional Treaty. November: A new European Commission takes office with Barroso as its president.

2005: The French and Dutch electorates reject the Constitutional Treaty in referenda, thus preventing its full ratification. The European Union continues to function on the basis of its existing treaties. October: Accession negotiations begin with Croatia and Turkey. December 2005: EU leaders agree on the financial perspective setting out EU expenditure and revenue for the 2007-13 period. The Former Yugoslav Republic of Macedonia is declared a candidate country.

2006 May: An Interinstitutional Agreement between the European Parliament, the Council and the Commission formalizes the financial perspective setting out EU expenditure and revenue for the 2007-13 period.

2007 January: Bulgaria and Romania join the EU. Slovenia adopts the euro. Under the German presidency the EU agrees to work towards a new treaty. The European Council agrees on the text of the Lisbon Treaty. EU leaders sign the Lisbon Treaty. Schengen is extended to all the countries that joined the EU in 2004 except Cyprus. The Lisbon Treaty, with most of the original innovations of the Constitution carried over, but some of the more symbolic aspects, such as the EU anthem, dropped.

2008 January: Cyprus and Malta adopt the euro. February: The Black Sea Synergy is inaugurated in Kiev. June: The Lisbon Treaty is rejected in a first referendum in Ireland. July: Union for the Mediterranean is launched in Paris. August: ECB injects €95 billion into banking system. October: EU countries agree on a coordinated rescue package for their financial sectors.

2009 January: Slovakia adopts the euro. May: Inauguration of the Eastern Partnership in Prague. Agreement on EU/IMF package of up to €110 billion to help Greece. June: European Parliament elections. July: Iceland requests EU membership. September: Barroso confirmed for a second term as Commission president. An EU Council summit prepares the way for a second referendum on the Lisbon Treaty in Ireland - 'protocols' are promised to be attached to the treaty to provide guarantees on issues such as Irish neutrality and ethical issues. At a second referendum in October, 67% of Irish voters vote 'yes' to the treaty (turnout is 59%). In November, the Czech Republic becomes the last EU member to sign the treaty after securing an opt-out from the Charter of Fundamental Rights, which the treaty made legally binding. The Lisbon Treaty enters into force in December.

2010: Two new posts created by the Lisbon Treaty are filled - Britain's Baroness Catherine Ashton is appointed High Representative of the Union for Foreign Affairs and Security Policy and Belgium's Herman Van Rompuy is appointed permanent President of the European Council. March: Europe 2020 strategy to create growth and jobs launched. May: EU/IMF bailout for Greece. Agreement reached on a bailout fund for eurozone countries of up to €750 billion to meet the sovereign debt crisis. June: Iceland becomes a candidate country. November: EU/IMF bailout for Ireland. December: Montenegro becomes a candidate country. Germany and France delay the extension of Schengen to Bulgaria and Romania on the grounds of need to intensify the fight against corruption and organized crime.

2011 January: Estonia adopts the euro. February: Germany and France propose Competitiveness Pact. March: European Council agrees Euro Plus Pact. May: EU/IMF bailout is agreed for Portugal. July: A second bailout is agreed for *Greece*.

2013: Croatia becomes the 28th member state of the EU.



2014: On 1 January, the Euro is launched as the official currency in Latvia.

2015: Lithuania is the last Baltic State to join the Eurozone.

3. CHAPTER 3 - The DecisionMaking Institutions of the European Union

Learning Outcomes

When finishing this chapter, you should be able to understand:

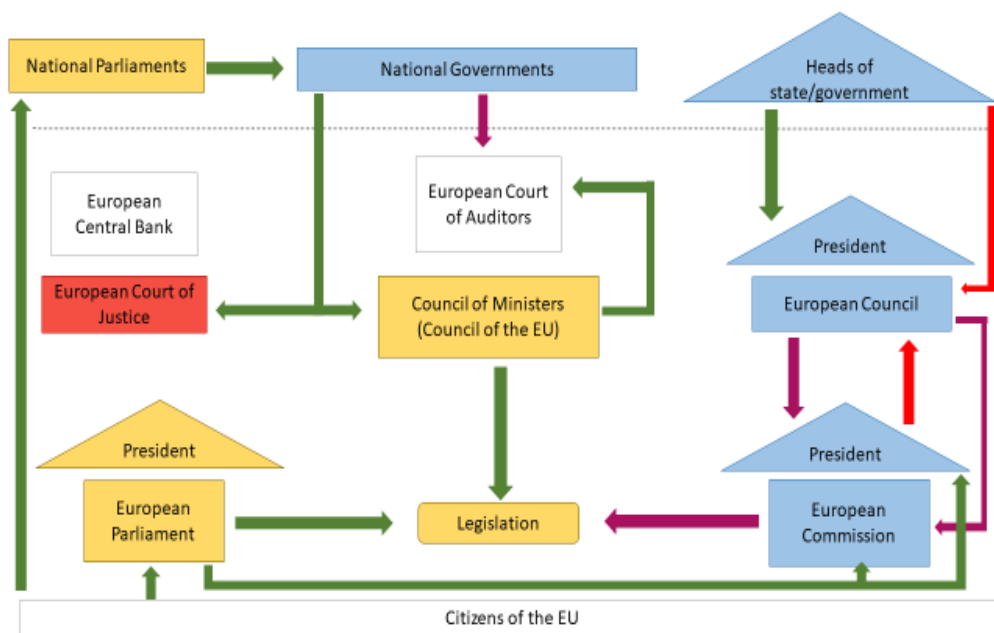
- ✓ The most important changes introduced by the Lisbon Treaty
- ✓ What are the main, decisionmaking institutions of the EU
- ✓ The structure and functions of the European Commission
- ✓ The role of the Council and the European Council
- ✓ The system of voting in the Council
- ✓ The organization and role of the European Parliament
- ✓ The role of the Court of Justice
- ✓ The main features of the Court of Auditors
- ✓ The decisionmaking procedures of the EU
- ✓ What we mean by 'differentiated integration' and enhanced co-operation

INTRODUCTION

The European Union (EU) is not a federation like the United States. Nor is it simply an organisation for cooperation between governments, like the United Nations. The countries that make up the EU (its 'member states') remain independent sovereign nations but they pool their sovereignty in order to gain a strength and world influence none of them could have on their own.

Pooling sovereignty means, in practice, that the member states delegate some of their decision-making powers to shared institutions they have created, so that decisions on specific matters of joint interest can be made democratically at European level.

One of the main difficulties of the EU is that of accommodating its institutional structure to a growing membership, at the same time ensuring that decision making respects democratic principles and is 'as close to the citizens as possible'. Difficulties arise in analysing EU decision making because the EU is neither a country nor a 'traditional' international organization. EU institutions have been evolving over time and reflect successive compromises to balance various (and varying) interests.



In this chapter, recent steps in the process of reform of EU decisionmaking institutions are described. Then there follows an introduction to EU decision-making institutions, each of which is subsequently analysed in more detail.

1. Towards the Lisbon Treaty

Following the unsuccessful attempts in the Amsterdam and Nice treaties to prepare EU institutions for enlargement, in 2001 an EU summit at Laeken in Belgium agreed on the creation of a Constitutional Convention to draw up a Constitutional Treaty aimed at making EU decision making more democratic, transparent and efficient.

The draft Constitutional Treaty was signed in Rome in 2004, but before coming into operation had to be ratified by all the member states, either by a vote in the national parliament or by a referendum. In May 2005 France rejected the Constitutional Treaty in a referendum, and this was followed by a negative outcome in a Dutch referendum of 1 June 2005. A 'period of reflection' on the future of Europe was subsequently launched.

Following the rejection of the Constitutional Treaty in referenda in France and the Netherlands, in 2007 EU leaders agreed on the Lisbon Treaty. This aims at rendering EU decision making more efficient and legitimate through changes such as an elected Commission president, simpler voting rules in the Council, a longer term European Council president, increased legislative and budgetary powers for the EP, a High Representative for Foreign Affairs and Security Policy, and more involvement of national parliaments.

Meeting in Berlin in March 2007 EU leaders agreed to the Berlin Declaration, which aimed at working towards a new treaty for the EU. In June 2007, under the German presidency, the EU leaders agreed on the outline of a draft Reform Treaty to replace the Constitutional Treaty. An Intergovernmental Conference (IGC) began work in July.

The main decisionmaking institutions of the EU are: the European Commission, the Council, the European Council, the European Parliament (EP), the European Economic and Social Committee (EESC), the Committee of the Regions, the Court of Justice and the Court of Auditors

In general, the European Commission proposes new legislation, while the Council and Parliament pass the laws. The following sections explain the roles of the various institutions.

2. The European Commission

With the Lisbon Treaty the term 'European Commission' or simply 'Commission' is made up of the one commissioner from each of the member states. The commissioners at the head of the Commission are responsible for one or more areas of policy and are required to act independently of national interests. A president heads the Commission and can play an important role in influencing the image of the Commission and determining the pace of integration. For instance, the personal role of Commission president Jacques Delors (from 1985 to 1995) was fundamental for the development of the Single Market project and economic and monetary union. The Portuguese José Manuel Barroso was president of the Commission from 2004 to 2009, and again from 2009.

The functions of the Commission are: to present legislative proposals; to implement decisions; to exercise certain autonomous powers in areas such as competition policy and trade negotiations; to prepare the annual preliminary draft budget for the EU; to act as guardian of the treaties; and to present White and Green Papers on specific policy areas.

The commissioners are chosen for a five-year period.

2.1.The members of the Commission - the Commissioners

Each Member State nominates one Commissioner, and therefore the Commission has 28 members.²¹

EUROPEAN COMMISSION:

- „the motor of European integration”
- executive branch of the EU
- president: Jean-Claude Juncker (from Luxembourg, since 2014 he is the president)
- headquarter: Brussels
- main task: negotiate international agreements
- supervises the budget of the EU
- this body can propose new laws to the EU Parliament and to the Council of the EU
- operates as cabinet government
- has 28 members: 28 commissioners are bound to represent interests of the EU states
- the president is from the 28 members and is appointed by the European Council
- from the other 27 commissioners, a High Representative of the Union for Foreign Affairs and Security Policy

The Commission is appointed for a period of five years by the European Council with the common accord of the Member States, and with the consent of the European Parliament.

²¹ Prior to the enlargement round of 2004, in the EU-15 the practice was that, each of the five “big” Member States (France, Germany, Italy, Spain and the United Kingdom) nominated two Commissioners while the other Member States nominated one each, adding up to a Commission of 20. Due to the big increase in the number of Member States, the old system was no longer sustainable. Finally, the Treaty of Nice opted for the ‘one Member State - one Commissioner’ principle for a transitional period, with the proviso that the conditions for converting to a rotational system would have to be elaborated in the future.

2.2 The administrative structure of the Commission

The administrative structure of the Commission is composed of the Directorates- General (DGs), Services and Offices, the latter two with responsibilities similar to those of Directorates-General.

3. The competence of the Commission

The founding Treaties of the Union entrust the Commission with a wide range of responsibilities that involve making proposals (preparing decisions and initiating legislation), as well as executive, decision-making, control and representative functions.

The Commission plays a key role in the decision-making process within the EU. It initiates legislation in almost all cases. The Commission has the sole right of initiative, except for the areas of judicial cooperation in police and criminal matters, (in which a quarter of the Member States can put forward proposals) and foreign and security policy,(in which individual Member States and the High Representative of the Union for Foreign Affairs and Security Policy has the right of initiative instead of the College of Commissioners). The Commission is accountable to the Parliament, which may even dissolve the College of Commissioners with a two-thirds majority vote.

3.1 The functions of the European Commission

The Commission has to 'promote the general interest of the Union and take appropriate initiatives to that end' (Article 17 TEU), and is involved at each stage in the EU legislative process. Commission proposals are generally the result of a lengthy process of consultation involving interest groups, national civil servants, politicians and so on.

Over the years the European Council and the European Parliament have played an increasing role in proposing policy initiatives. The Commission 'disposes'

or has to 'exercise coordinating, executive and management functions' (Article 17 TFEU). This 'management' role of the Commission is important in the day-to-day running of policies such as the Common Agricultural Policy and Common Commercial Policy.

The Commission has certain autonomous powers in areas such as competition policy and on some policy issues including foreign trade. It represents the EU in international organizations such as the Organisation for Economic Co-operation and Development (OECD), the United Nations and the World Trade Organization (WTO). The Commission prepares the annual preliminary EU draft budget and is responsible for executing the budget. The Commission acts as guardian of the treaties, ensuring that their provisions are applied

The Commission may publish formal presentations (White and Green Papers) on specific policy areas in order to make the position of the Commission known. The Commission derives its legitimacy from its independence from national interests and its expertise on EU matters.

4. The Council of the European Union

The Council of the European Union (in short, the Council) is the Union's policysetting, decision-making and legislative body. As a general rule, the Council adopts legislative acts together with Parliament, in exceptional cases acting on its own. The Council has the role of coordinating the Member States, and also functions as the institution representing the interests of the Member States. The Council is composed of one representative at ministerial level from each Member State. It is for the Member States to decide who to delegate to

the Council meetings. The Council is often referred to as the Council of Ministers.²²

5. COREPER and the Council's working groups

A body was established to assist and prepare the work of the Council. This is the Committee of Permanent Representatives, the so called COREPER which consists of the ambassadors of the delegations of the member states in Brussels. The COREPER helps to prepare Council meetings, and may take decisions on issues that are not controversial. COREPER's principal responsibility is to try to reconcile and harmonise the positions of the Member States on the questions discussed at this expert, diplomatic level and to prepare the specific recommendations to be discussed by the Ministers at political level. Furthermore, COREPER is responsible for maintaining communication between the governments of the Member States and the institutions of the Union.²³

²² The name of the Council of Ministers varies, depending on which ministers are to meet. The bodies of the competent ministers are the so-called sectoral Councils. For example, Financial Ministers (responsible for economic and financial affairs) meet as the Economic and Financial Affairs Council (ECOFIN), while the Ministers of Agriculture meet as the Agriculture and Fisheries Council. The General Affairs Council (consisting of foreign ministers or ministers for European affairs) falls into a separate category: it deals with politically more significant, general, horizontal or sensitive issues and often also functions as an appeal forum for the sectoral Councils. Another unique configuration is the Foreign Affairs Council, which has a permanent chair, the High Representative of the Union for Foreign Affairs and Security Policy.

²³ *The Committee meets once a week at two separate levels. COREPER II is the forum of the Permanent Representatives, while COREPER I consists of*

Technical discussions and coordination are mostly settled at the lower levels. This division of labour guarantees the smooth decision-making of the Council.

6. The Presidency of the Council

The Presidency of the Council plays a vital part in the organisation of the work of the institution. It rotates between the Member States every six months.

What is sometimes called the Council of the European Union or 'Council of Ministers' is referred to simply as 'Council' in the TEU and TFEU. The Council was initially the principal decisionmaking institution of the EU alongside the Commission, but with successive treaties it has increasingly carried out legislative and budgetary powers jointly with the European Parliament.

The Council takes final decisions on legislation jointly with the European Parliament. The composition of the Council varies according to the policy area considered.

The Council is composed of representatives of each of the member states at the ministerial level and is attended by European Commissioners responsible for the policy area(s) concerned.

their Deputies. COREPER II deals with issues of a political nature, while COREPER I is responsible for issues of a more technical nature, although it should be noted that, at this level, almost every issue has political dimensions. However, the general practice is that COREPER II is in charge of preparing the General Affairs Councils, Foreign Affairs Councils, Economic and Monetary Affairs Councils, and Justice and Home Affairs Councils, while COREPER I is given responsibility for all other Council bodies.

COUNCIL OF THE EUROPEAN UNION:

- another name: Council of Ministers
- headquarter: Brussels
- task: - binds international agreements
 - ensures economic and social policies
- responsible for legislation with the EU Parliament
- responsible for the budget of the EU
- members of the institution: 28 national ministers - from each member state there is one
- several member states ally with strategic partners within the EU (e.g.: Visegrad Group; Benelux)

The main functions of the Council are:

- to pass European laws jointly with the European Parliament in many policy areas;
- to coordinate the broad economic policies of the member states;
- to conclude international agreements between the EU and other countries or international organizations;
- to approve the budget of the EU, jointly with the European Parliament;
- to develop the Common Foreign and Security Policy of the EU, based on guidelines set by the European Council;
- to coordinate cooperation between the national courts and police forces in criminal matters.

7. Voting rules in the Council of Ministers

The Council of Ministers may take decisions by unanimity, simple majority or qualified majority voting (QMV). According to the treaties, unless otherwise specified, simple majority will be the rule, but almost invariably the treaties specify that QMV or unanimity voting should be used. Qualified majority voting is the most widely used system of voting in the Council.

Given the complexity of the solution agreed at Nice, the Lisbon Treaty entails a simpler system based on a 'double majority', so that 55 per cent of member states representing at least 65 per cent of the EU population will be required to pass a measure from 1 November 2014.

Baldwin (2007) and Kandogan (2005a) find a close correlation between the number of votes of the poorer member states and spending on what is now called economic and social cohesion. Kandogan (2000) also finds a similar result for the link between the number of member states with a strong interest in agriculture and agricultural spending. On the basis of the experience of successive enlargements Kandogan (2005) concludes that the allocation of voting power in the Council is more important than the initial budgetary deal for the new member state, as voting power will determine successive budgetary outcomes.

The Council of Ministers may take decisions by unanimity, simple majority or qualified majority voting. Successive treaties have increased the number of policy areas subject to QMV. In practice there are usually attempts to reach consensus.

7.1 The European Council

The European Council was from the outset an intergovernmental body, it had no basis in the treaties until the Single European Act came into force in 1987. It became the overarching institution of the EU in the Maastricht Treaty.

The heads of state and of government together with the president of the Commission make up the *European Council*. The European Council plays an important role in providing overall political direction to the Union, defining priorities, goals and strategies, setting broad economic guidelines, and in resolving problems that have proved intractable at the Council level. In general the European Council takes decisions on the basis of consensus, and implementation of the measures is left to the other EU institutions.

The president is elected by a qualified majority of members of the European Council and, unlike the president of the Commission, is not subject to approval by the European Parliament. The president is responsible for coordinating the work of the European Council, hosting its meetings, and reporting its activities to the European Parliament, but also plays a role in external representation of the EU. The presidency of the various other Councils rotates among the EU member states in six month terms.

The country holding the presidency has the power to set the agenda; draft compromises; and attempt to ensure the continuity and consistency of policy making.

EUROPEAN COUNCIL:

- **Donald Tusk** is the president (polish, since 2014 he is the president)
- main goal:
 - to give political direction to the EU
(to provide political impetus for the development of the EU and to set general objectives and priorities)
 - to solve political crisis and disagreements
 - to ratify agreements and treaties
- headquarter: Brussels
- this institution is actively involved in the negotiation of treaty changes and defines the EU's policy agenda and strategies
- this is the **meeting point** for Donald Tusk, Jean-Claude Juncker and one representative per member state
- these together are called „EU's supreme political authority”

The European Council

The order of the presidency (January-June-July-December)

<i>2009 Czech Republic Sweden</i>	<i>2010 Spain Belgium</i>
<i>2011 Hungary Poland</i>	<i>2012 Denmark Cyprus</i>
<i>2013 Ireland Lithuania</i>	<i>2014 Greece Italy</i>
<i>2015 Latvia Luxembourg</i>	<i>2016 The Netherlands Slovakia</i>
<i>2017 Malta UK</i>	<i>2018 Estonia Bulgaria</i>
<i>2019 Austria Romania</i>	<i>2020 Finland</i>

Holding the presidency is often a matter of national pride and may be used to increase awareness of the EU in that country. The Lisbon Treaty also envisaged an European External Action Service (EEAS) to back the High Representative and work in cooperation with the diplomatic services of the member states

The Lisbon Treaty introduced an European Council president holding office for two and a half years, renewable once, and a High Representative for Foreign Affairs and Security Policy who heads the Foreign Affairs Council.

8. The European Parliament

Since the Lisbon Treaty the EP exercises legislative and budgetary functions jointly with the Council, and plays a role in democratic supervision and political control of other EU institutions, and in particular the Commission. The EP is elected every five years, and, since 1979, a system of direct election has been used. The EP is the only directly elected EU institution, but the elections tend to be fought mainly on national issues.

The Amsterdam Treaty set a ceiling of 700 on the future size of the EP, but this was exceeded with abandon.²⁴

The European Parliament was traditionally a consultative body, but over the years its powers have increased and it now legislates jointly with the Council.

Since 1979 a system of direct election every five years has been used.

The functions of the Parliament are: to be consulted during the legislative process and to use the power of amendment, to exercise budgetary powers; to grant assent to important agreements with third countries or international organizations; to exercise supervisory powers over the work of the Commission; to investigate alleged contraventions of EU law and to appoint an ombudsman; and to act as a forum for discussion.

²⁴ *The turnout in the new CEEC member states was: Slovakia (17 per cent in 2004 and 20 per cent in 2009), Poland (21 per cent in 2004 and 25 per cent in 2009); Lithuania (falling from 48 per cent in 2004 to 21 per cent in 2009); Estonia (rising from 26 per cent in 2004 to 44 per cent in 2009); the Czech Republic and Slovenia (both with 28 per cent in 2004 and 2009); Hungary (38 per cent in 2004 and 36 per cent in 2009); Latvia (41 per cent in 2004 and 54 per cent in 2009); Romania (28 per cent in 2009); and Bulgaria (39 per cent in 2009). In the 2009 elections the highest turnout was in Belgium and Luxembourg, both with over 90 per cent, while the lowest turnout in the EU (15) was in the UK (35 per cent), the Netherlands and Portugal (37 per cent), France (41 per cent) and Germany (43 per cent). Data from www.ukpolitical.info/europeanparliamentelectionturnout.htm (accessed 22 April 2010).*

The MEPs are organized into large groupings that reflect political leaning rather than nationality

After the 2009 elections these were: the European People's Party (Christian Democrats) with 265 MEPs, the Progressive Alliance of Socialists and Democrats in the European Parliament (184 MEPs), the Group of the Alliance of Liberals and Democrats for Europe (84 MEPS), the Greens/European Free Alliance (55 MEPs), the European Conservatives and Reformists (55 MEPs); the Confederal Group of the European United LeftNordic Green Left (35 MEPs); Europe of Freedom and Democracy Group (32 MEPs) and non-attached (26 MEPs).

EUROPEAN PARLIAMENT:

- it's president: Antonio Tajani (italian, president since 2017)
- headquarter: Strasbourg, but meets in Brussels
- another legislative body
- responsible for the budget of the EU
- this body has the democratic control over all the EU's institutions
- it has 751 members (so called MEPs), who are elected in every 5 years by EU citizens
- the president has the role of speaker in the Parliament and represents it abroad

8.1 The functions of the European Parliament

The Parliament examines the annual work programme of the Commission in order to consider what new legislation is appropriate and ask the Commission to put forward proposals. The Commission is also required to inform the EP on a regular basis of its committee proceedings.

The Lisbon Treaty gave the EP budgetary powers over all types of spending. Parliament makes an annual assessment of the management of the budget before approving the accounts and granting 'discharge' to the Commission on the basis of the Annual Report of the Court of Auditors.

Parliamentary assent is necessary before important agreements can be concluded, such as those with third countries or international organizations, and, in particular, its assent is necessary for treaties of accession or association.

The EP has *supervisory powers* over the work of the Commission.

The Maastricht Treaty gave the EP the power to investigate alleged contraventions of Community law and to appoint an *ombudsman* to receive complaints from any EU citizen about suspected maladministration on the part of any EU institution. The ombudsman may take the initiative in making investigations. The EP is an important forum for discussion. The Parliament sets its own agenda for discussions, invites outside speakers and can send out delegations and factfinding missions.

9. The role of national parliaments

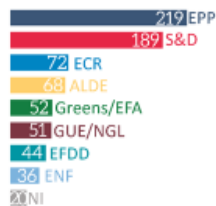
During the debate leading to the Lisbon Treaty, the prime minister of the Netherlands, Jan Peter Balkenende, insisted on an increased contribution of national parliaments to the functioning of the EU as a 'red line' issue.

Members sit according to their political groups, not according to their nationality:

European Parliament, 2014-19

Size of the political groups

Number of MEPs in each political group as of 1 April 2018.

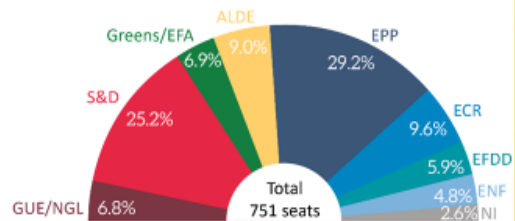


751
MEPs

EPRS | European Parliamentary Research Service

Proportion of Members in each political group

Share of each political group in the total 751 seats in the Parliament.



With the Lisbon Treaty (Article 12 TEU), national parliaments have been given a greater role with regard to:

- being informed by EU institutions;
- monitoring the proper application of the subsidiarity principle. In most cases national parliaments would have eight weeks to study draft legislative acts of the Commission to decide whether
- to send a reasoned opinion stating why the national parliament considers the proposal to be incompatible with subsidiarity (Protocol 1 to the Lisbon Treaty);
- participating in the mechanisms to evaluate implementation of policies relating to freedom, security and justice;
- revision of the EU treaties;
- responding to new applications for EU membership;
- cooperation between national parliaments and with the EP

- Despite the additional complication of the proposed new measures, the reform may have the advantage of developing networks, tightening the links between the EU and national levels, and stimulating debate and awareness of EU issues.

10. The European Economic and Social Committee

The European Economic and Social Committee (EESC, also known as Ecosoc) has its origins in the French notion of including the 'social partners' (and, in particular, trade unions and employers) in social dialogue.

In practice, the representatives from each member state in the EESC are drawn from three categories: trade unions, employers and 'other interests'. The EESC represents the various economic and social components of the EU, including producers, workers, consumers. Based in Brussels, following the 2007 enlargement the EESC had 344 members.

The EESC has emerged as an important institutional forum for social partners to engage in key discussions of different aspects of integration.

The European Economic and Social Committee and the Committee of the Regions are consulted during the legislative process.

11. The Committee of the Regions

The Maastricht Treaty created the Committee of the Regions, which shares its secretariat with the EESC. The Committee consists of regional and local representatives appointed for five year terms, whose function is to advise the European Parliament, Council and Commission on regional problems and policies, and on issues involving crossborder cooperation.

The Committee of the Regions has the same number of representatives per member state.



12. The Court of Justice

The Lisbon Treaty gave the EU legal personality and abolished the pillar structure, and as a result the *Court of Justice of the European Communities* became known as the *Court of Justice of the European Union* with some corresponding changes in its jurisdiction.

The European Court of Justice (ECJ) acquired general jurisdiction to give rulings in the area of Freedom, Security and Justice, though not, in most cases, over the Common Foreign and Security Policy, which remains subject to special rules and procedures. Apart from in the UK and Poland, which have derogations, the Court can also adjudicate on matters relating to the Charter of Fundamental Rights. The Court of Justice is composed of one judge from each member state, assisted by eight advocates general. All appointments are for six year renewable terms, and the judges choose a president every three years. Judges are appointed by common accord of the governments of the member states.

The ECJ is responsible for interpreting EU law and adjudicating on disputes arising from the interpretation of the treaties and the legislation based upon them. If national law and EU law conflict, the latter takes precedence: in other words national courts must apply EU law rather than a national rule even against their own governments in a situation which falls within the scope of

the treaties. The ECJ is the highest court to which disputes on EU law can be taken, and national courts must abide by its judgments.

The Court cannot initiate cases, but makes judgments on cases referred to it by EU institutions, national governments and courts, corporate bodies and individuals. The Court can only act within the powers given by the treaties.

13.The Court of Auditors

The collection and spending of EU funds is subject to external control by the Court of Auditors in Luxembourg. The Court's authority extends to all institutions (including those in third countries) receiving or handling EU funds. Created by the Treaty of Brussels of 1975, the Court started operating in 1977 and has one member from each member state elected for a renewable six year term.

The European Court of Justice is responsible for interpreting EU law and adjudicating on disputes arising from the interpretation of the treaties and the legislation based upon them.

The expenditure of all the EU institutions is subject to control by the Commission and European Parliament, and since 1977 to external control by the Court of Auditors.

The Court is responsible for ensuring that all expenditure corresponds to the legal provisions, that correct accounting practices have been used, and financial objectives have been met. In practice, it has mainly been concerned with checking on fraud and the proper use of funds. The findings of the Court are published in an annual report, and other reports on specific topics may also be produced. Initially the Court could simply bring irregularities to the notice of the authorities responsible for the institution concerned, but since the Treaty of Maastricht it can refer cases to the ECJ.

14. The decisionmaking procedures of the EU

Until the Single European Act of 1987, the legislative procedure was based on what is known as the **consultation procedure**. This essentially consisted of a Commission proposal being passed to the European Parliament and European Economic and Social Committee, and since the Maastricht Treaty to the Committee of the Regions for 'consultation'. The Single European Act 1987 introduced the **cooperation procedure** as a means of strengthening the role of the EP in the legislative process. The procedure allowed the EP to amend legislation. The Maastricht Treaty introduced the **codecision procedure**, and successive treaties all entailed an extension of its use.

The decisionmaking procedures of the EU are the consultation procedure, the cooperation procedure, the codecision procedure and the assent procedure. With the Lisbon Treaty the codecision procedure became the ordinary legislative procedure.

The Lisbon Treaty envisaged near generalization of the codecision procedure, extending it to about forty other fields, and it became known as the ordinary legislative procedure (Article 294 TFEU). The aim of wider use of the **codecision procedure** was to reinforce the power of the EP so it shares legislative power jointly with the Council.

15. 'Flexibility' or 'enhanced cooperation'

The number of policy areas dealt with by the EU is growing. The widening membership of the EU is bringing growing diversity, and with it the idea that more '*flexibility*' or '*differentiated integration*' will be necessary.

One mechanism of flexibility is 'enhanced cooperation', by which the Council authorizes a group of member states to move ahead while remaining within the EU framework. It requires enhanced cooperation to:

- Further the objectives of the EU, protect its interests and reinforce the integration process;
- respect the 'competences, rights, and obligations' of nonparticipating member states;
- be open to all member states at any time;
- be authorized initially by a unanimous vote of the Council;
- involve at least nine member states, and promote membership to as many member states as possible;
- set out the conditions for joining the initiative; and

- be open to the participation of all members of the Council in its deliberations, though only the participants in enhanced cooperation can vote.

Transitional periods may be used before countries are able to sign up fully for certain policies. This is sometimes referred to as a 'multi speed' Europe, though the precise definition of this term varies in the literature. A multi speed EU generally assumes that all member states will arrive at the same destination but require different speeds to do so.

It implies that the goal for all member states would be that of membership in all aspects of the Union, but that member states may need more time to prepare for such membership. For instance, there was a delay before Greece could adopt the euro. In the case of the new Central and East European member states, long transitional periods were also applied in areas such as labour movement, the CAP, land ownership and environmental regulations.

16.Evaluation

How far do the changes introduced by the Lisbon Treaty render EU decision making more democratic, transparent and efficient?

The Constitutional Treaty had aimed at simplifying and clarifying the legal basis of the EU by replacing earlier treaties. This objective was certainly not achieved by the Lisbon Treaty, which returns to the traditional method of treaty revision and maintains two treaties and numerous protocols.

Despite successive treaty reforms the EU decisionmaking process is still far from being transparent and accessible. Few member states would be willing to embark on another phase of treaty change in the near future. However, some institutional modifications are possible without treaty change. Many aspects of the Lisbon Treaty have yet to be implemented, and others have still to be spelt



out. It seems likely that the process of evolution of EU decision making will continue, though at a slower pace than in recent years.

EXERCISES

Questions for study and review

- Describe the organization and functioning of the European Commission. What are the main criticisms levelled against the Commission?
- Why was it necessary to reform the system of voting in the Council of Ministers? What system of voting do you consider appropriate for the EU?
- Explain the qualified majority system of the Council.
- What are the advantages and disadvantages of having a longerterm European Council president?
- Describe the European Parliament and indicate its main functions. What reforms are necessary to increase the democratic accountability of the European Parliament?
- Explain the codecision procedure. How has the role of the European Parliament in EU decision making changed over time?
- How would you resolve the problem of languages in the EU?
- Describe and criticize the reforms entailed by the Lisbon Treaty.
- What are the dilemmas posed by flexibility or differentiated integration?
- What measures could be taken to tackle the democratic deficit?
- How do you envisage the future architecture of Europe?

CHAPTER 4 - The Theory of Trade and the EU

Learning Outcomes

When finishing this chapter, you should be able to understand:

- ✓ The main traditional arguments in favour of free trade (absolute advantage and comparative advantage)
- ✓ What we mean by the political economy of protectionism
- ✓ The concepts of trade creation and trade diversion |
- ✓ The conditions under which a customs union is likely to increase welfare
- ✓ What we mean by the dynamic effects of integration
- ✓ The link between growth and integration
- ✓ Why there may be a tension between regional trade blocs and multilateral trade liberalization ?

INTRODUCTION

The aim of this chapter is to introduce the different concepts used in the theory of trade. Prosperity is generally associated with the benefits to be obtained by removing barriers to trade, and by permitting freedom of movement of goods, services, labour and capital.

1. The main arguments in favour of free trade

Many of our arguments in favour of free trade still owe much to the work of the classical economists Adam Smith and David Ricardo. These writers

illustrated that trade between two countries could be mutually beneficial thanks to the specialization of production. These theories were based on restrictive assumptions, a wide literature suggests that while trade liberalization leads to overall gains, there may be winners and losers in the process. The evolution of the new trade theory essentially involves relaxing various of the assumptions.

2. Absolute advantage

Adam Smith illustrated the principle of absolute advantage. With two nations, if one country is more efficient in the production of one good, and less efficient in the production of another, then each country should specialize in the production of the good for which it has an absolute advantage. Part of the output of that country can be exchanged for the good for which it has an absolute disadvantage. In this way resources will be used in the most efficient way possible.

3. Comparative advantage

According to the principle of comparative advantage developed by David Ricardo, even when one country is less efficient in the production of both goods there is a basis for mutually beneficial trade. The country with an absolute advantage in the production in both goods should specialize in the production and export of the product where its absolute advantage is greater, and import the good for which its absolute advantage is smaller.

The early economic analysis of integration relies heavily on what is known as 'customs union theory'. One of the questions to arise was why preferential arrangements should be preferred to unilateral trade liberalization. Traditionally, 'customs union theory' attempted to address this question and assess the effects of customs unions using instruments based on the concepts

of welfare economics. More recent analysis has taken into account the dynamic effects of integration and phenomena such as economies of scale, increased competition and better opportunities for more rapid technology transfer. According to empirical studies, these dynamic effects of integration seem far more important than the static welfare effects.

Trade creation arises when domestic production is replaced by cheaper imports from a partner country. **Trade diversion** involves low cost imports from suppliers in third countries being replaced by more expensive imports from a partner country. It was generally assumed that integration would lead to a welfare gain because the positive effect of trade creation would exceed the possible negative effects of trade diversion.

Viner considered the costs and benefits of forming a customs union only from the point of view of production, and assumed that products were always consumed in the same proportion. Lipsey (1957) pointed out that the customs union is also likely to have an effect on the consumption side. It is also ambiguous as to whether the terms 'trade creation' and 'trade diversion' refer to trade flows or welfare effects, but Pelkmans and Gremmen (1983) have illustrated that changes in trade flows can be a misleading indicator of welfare changes.

4. The effect of a customs union on the partner country

From the analysis here it emerges that the net effect of forming a customs union on the welfare of the home country may be positive, negative or zero. This is known as 'Viner's ambiguity'. The dynamic effects of integration

Terms of trade effects

The traditional static analysis assesses the overall impact of a customs union by comparing the situation before and after creation of the customs union. However, Cooper and Massell (1965) challenged this approach, arguing that

the comparison should be made between *discriminatory reduction of tariffs*, as in the case of a customs union, and a *non discriminatory elimination of tariffs*. They argue that a non discriminatory removal of tariffs would not involve trade diversion and would be superior. The question then becomes: why do countries create customs unions (or preferential trade liberalization) rather than use non discriminatory trade arrangements? One reason given is the possible terms of trade loss from unilateral trade liberalization, and the possible terms of trade gain that may arise for the customs union as a whole as a result of discrimination against the rest of the world.

5. The dynamic effects of integration

Over time, attempts to assess the effects of integration and explain why countries opt for preferential trade arrangements rather than multilateral liberalization, has entailed a shift in emphasis towards the dynamic effects of integration. Studies such as the Cecchini Report (Cecchini, 1988) and that of Emerson et al. (1989) argued that the benefits from these dynamic effects could be as much as five or six times as large as the static effects of integration.

The dynamic effects of integration are: economies of scale, increased competition, specialization, increased bargaining power at an international level, and technological progress. These effects are generally considered to be greater than the traditional static integration effects.

As indicated below, the extent to which the various dynamic effects of integration have actually come to fruition in the EU is taken up in later chapters. The dynamic effects of integration include:

- Increased competition. By bringing down the barriers integration should lead to reductions in costs and prices and encourage the restructuring of industry
- Economies of scale. With integration, firms operate in a larger market and have more opportunities for exploiting economies of scale.
- Technology and knowledge transfers. It is frequently argued that economic integration also contributes to technological progress.
- Political economy arguments. Sectoral interests may explain why a country prefers a regional trade bloc to multilateralism, and it may be easier to deal with the adverse effects of lobbying in a larger integration unit.
- Increased bargaining power at an international level
- More rapid growth.

According to this approach, integration could also have a positive effect on financial markets, thereby leading to higher levels of investment and long term growth. In particular, greater competition might encourage more efficiency in financial markets, enabling a reduction in the spread between the return earned by savers and the costs of funds to investors (Baldwin, 1994).

A lesson from approaches based on the new growth theory is that public intervention can contribute to growth by encouraging R&D

6. Political economy arguments to explain why countries may prefer regional trade blocs to multilateral liberalization

Johnson (1965) introduces political economy arguments to maintain that countries with a strong preference for industrial production may favour the creation of a customs union or preferential trade arrangements.

According to this view, governments use tariffs to achieve certain non-economic objectives. With a customs union, trade creation is not considered as a means of replacing higher cost production with cheaper imports but is regarded as the price to be paid for expanding export markets. Preferential trade liberalization gives rise to chances for expanding industrial production to an extent not possible through non discriminatory liberalization.

According to Johnson's model a country will join a customs union only if it considers that its comparative advantage in some forms of industrial production is strong enough for its industrial production to increase (or for any loss in industrial production to be compensated by greater efficiency).

As a result, customs unions are likely to be negotiated between countries with a similar preference for industrial production (or in other words, a similar level of economic development).

Grossman and Helpman (1995) developed the political economy argument, explaining policy formation as the outcome of lobbying and competition among industries. In this framework free trade negotiations become a process of providing a sufficient balance between the interest groups of a country.

7. Empirical research on the effects of integration

Many of the early empirical studies of the formation and successive enlargements of the EC were based on customs union theory. This type of approach generally involves an attempt to measure the effects of passing from free trade to a customs union.

For instance, thanks to the Europe Agreements the new Central and East European member states had a free trade area for manufactures and passed to a single market (with some derogations) with enlargement. Turkey already has a customs union with the EU, though agricultural goods are largely excluded.

Early empirical research based on the customs union approach (that is, attempting to measure trade creation and trade diversion) found the effects of integration surprisingly small. Though there considerable variations in the results, in general the gains from creation of the Community were found to be in the order of 12 per cent of GDP (Lipsey, 1960; Harrop, 2000). This was partly because trade was generally a rather small share of GDP, and most of the studies concentrated on tariff reductions, but tariffs were already relatively low.

A first distinction can be made between *ex ante* and *ex post* analyses of the effects of integration. An *ex ante* analysis attempts to estimate the future effects of setting up an integration bloc, or enlargement to new members. In this case, information is available concerning the present, preintegration situation, but predictions have to be made about the likely impact of beginning or extending the integration process.

Ex post analyses of the effects of integration take place after the process has been in operation for some time. In this case, data are available on what has occurred with integration, but the difficulty lies in attempting to assess what would have happened in its absence. In other words, it is necessary to assess likely developments in economic variables such as trade, production and consumption if there had been no integration. This entails constructing an fictitious world in which the integration bloc is absent or the country in question remains outside it.

Integration may contribute to long term growth by encouraging R&D, technology diffusion, improved human capital and more efficient financial markets.

Viner (1953) introduced the concepts of *trade creation and trade diversion* on which customs union theory is based. Trade creation arises when domestic

production is replaced by cheaper imports from a partner country. Trade diversion results from low cost imports from suppliers in third countries being replaced by more expensive imports from a partner country. Usually these concepts are taken to refer to welfare effects rather than trade flows. The welfare effects of forming a customs union on the consumption side also have to be taken into account.

Surveys of empirical estimates of the trade effects of the EC using extrapolation are provided in Mayes (1978), Winters (1987) or Srinivasan et al. (1993). The surveys suggest that there was evidence for trade creation in the 1970s and 1980s, and though trade diversion was estimated to be much lower scale, it appeared to be substantial in the agricultural sector. Among the best known studies of this type for the EEC are those by Balassa (1967, 1974, 1975), Truman (1969). A more recent application of this type of approach was carried out by Bojnec and Ferto (2007) to assess the impact of the 2004 and 2007 enlargements on food and agricultural trade, and they found evidence of trade creation.

Kreinen (1972) carried out a comparison of EEC performance with that of third countries such as the USA, the UK and other industrial countries outside Europe. Clearly, the results depend heavily on the country chosen as a control group to 'normalize' trade shares. Kreinen's results suggest that trade creation was far more substantial than trade diversion.

The gravity model approach involves attempting to predict the level of bilateral trade flows on the basis of variables such as GNP, population, geographical distance and preferential trading arrangements. Gravity models were developed by Tinbergen (1952), and have been applied to the EC by Verdoom and Schwartz (1972), Aitken (1973) and, more recently, Frankel (1997), Soloaga and Winters (1999) and Kandogan (2005b). Other studies (Frankel

and Rose, 2000; Rose, 2000, 2002; Baldwin, 2005) have used gravity models to show how a common currency encouraged trade growth.

Following the collapse of communism in Central and Eastern Europe in 1989, various authors used gravity models to assess the 'normal' level of trade with the EC. Among the most well known studies of this type are those of Wang and Winters (1991), Hamilton and Winters (1992), Baldwin (1994), Faini and Portes (1995) and the Transition Reports of the European Bank for Reconstruction and Development (various years).

Wilhelmsson (2006) used a gravity model to assess the impact of the 2004 enlargement on trade between the EU(15) and the new Central and Eastern European member states, and found evidence for significant trade creation and limited trade diversion.

8. Regionalism or multilateralism

One of the more recent developments in the theory and practice of integration has been the emergence of a new wave of regionalism in the sense of a proliferation of regional trade blocs.

The explosion of regional blocs since the 1990s follows the first wave of regional trade agreements mainly between developed countries in the 1950s and 1960s. A total of 474 regional trade agreements in force were notified to the WTO by 31 July 2010. With the collapse of the Doha Round negotiations, this process is likely to continue.

The literature attempts to address the question of whether regional cooperation acts as a *stumbling block* to or a *building block* for multilateral trade liberalization (Bhagwati et al., 1998) and to identify the conditions for successful regional initiatives. According to Bhagwati (1993) the question is not simply whether the RTA was beneficial or not in itself, but whether its

dynamic effect was to accelerate or to slow the ongoing process of reducing trade barriers worldwide.

Bhagwati et al. (1998) refer to the 'spaghetti bowl' phenomenon caused by the overlapping of complex systems of trade concessions. This may help to explain why the EU has often preferred free trade associations to customs unions with the applicant countries (with the notable exception of Turkey, where the motives were political as much as economic).

Bhagwati and Panagariya (1996) also express fears that RTAs may be trade distorting, though, as illustrated above, this is an empirical question, depending on the case in question. Winters (1996) argues that regionalism may increase the risks of a catastrophe in the world trading system.

EXERCISES

Questions for study and review

- Describe the static and dynamic effects of integration.
- What explanations have been given of why countries may prefer preferential trade agreements?
- Under what conditions is a customs union likely to lead to an increase in welfare?
- Provide examples of how regional integration can promote multilateral trade liberalization.

CHAPTER 5 - The Single Market

Learning Outcomes

When finishing this chapter, you should be able to understand:

- ✓ How much specialization of industry there is in the EU
- ✓ The main forms of nontariff barrier still applied in the EU
- ✓ What advantages were expected from the Single Market Programme
- ✓ What were the main steps in introducing the Single European Market (SEM)
- ✓ How important the Single European Act (SEA) was in the integration process
- ✓ The difficulties encountered in the liberalization of services in the EU, in particular in areas such as financial markets and transport
- ✓ What were the estimated effects of the Single Market on the European economy
- ✓ The main elements of the Monti Report and the Commission's 2010 proposals to complete

INTRODUCTION

This chapter begins with a historical account of the introduction of the Single Market Programme. Following a brief discussion of the problems of implementation, each of the main aspects of the Programme is then discussed in turn: frontier controls, differences in national rules and regulations, fiscal harmonization, public procurement and services. The final part of the chapter deals with attempts to assess the achievements of the Single Market Programme, and discusses recent initiatives, aimed at its 'completion'.

1. Background to the Single Market Programme

Following the 1979 increase in oil prices, the European economy experienced a prolonged recession with stagnating output, rising unemployment and declining world export shares. During these years the terms 'Eurosclerosis' and 'Europessimism' were coined to describe the flagging process of integration. The main energies of the Community appeared absorbed by budgetary squabbles and the annual marathons to fix agricultural prices.

The EC member states were becoming increasingly concerned about the growing lag between their economic performance and that of countries such as Japan and the USA, especially in high technology sectors. The Community was losing its world market share not only in industries such as automobiles and industrial machinery but also in rapidly growing sectors such as information technology and electronics. Moreover, EC markets were increasingly being penetrated in these sectors by foreign firms.

In searching for the explanation for this lack of competitiveness, European industrialists and policy makers laid the blame on the fragmentation of the EC market. The EC business lobby soon began to press for EC initiatives to overcome this disadvantage, and the initial response of the Community was to introduce a series of measures to promote cooperation in research and development among European firms.

Theoretical studies, such as that of Krugman (1991), also provided evidence of the fragmentation of the EC market. Krugman argued that the four large countries of the EC were comparable in size and population to the four great regions of the USA. Examining industrial specialization as measured by share of manufacturing employment, Krugman found that the level of specialization in the USA was higher than in the EC, even though the distances were greater.

2. Expected advantages of the Single European Market

In 1985, when Jacques Delors became president of the Commission, the Single (or Internal) Market Programme was announced as a strategy to raise EC competitiveness. The idea was to return to and complete the original objectives set out in the Treaty of Rome. The removal of tariffs on intraEC trade was considered a major factor contributing to the quadrupling of that trade in the first decade of the Community, with intraEC trade growing twice as fast as world trade over that period. If the Community could now eliminate nontariff barriers between its members, the earlier success of the Community could perhaps be repeated.

The main nontariff barriers identified were:

- frontier controls;
- differences in technical specifications and standards;
- restrictions on competition for public purchases;
- restrictions on providing certain services (in particular financial and transport services) in other EC countries;
- differences in national tax systems.

The Commission divided these barriers into three somewhat arbitrary categories: physical barriers, fiscal barriers and technical barriers (all the rest). The third category lumps together measures such as differences in technical specifications and public procurement procedures with institutional restrictions on the free movement of people and capital, etc.

The choice of completion of the Single Market to relaunch the integration effort represented a major strategic decision on the part of Delors and the Commission. Following the Hague Summit of 1969, economic and monetary union was the main integration objective of the 1970s.

3. Expected advantages of the Single European Market

In the late 1980s the EC Commission sponsored what was probably the most extensive single assessment of the likely effects of an economic policy ever carried out. The results were published in sixteen volumes and are known as the Cecchini Report.

However, empirical studies of integration effects increasingly pointed to the gap between the traditional theory and real issues, and stressed the need to take dynamic effects such as increased competition, growth and the scope for exploiting economies of scale into account.

4. The timetable for the introduction of the Single European Market

In March 1985 the new president of the Commission, Jacques Delors, presented his programme for the Single Market to the European Parliament. Later that year the Cockfield White Paper Completing the Internal Market was presented at the European Council in Milan (European Commission, 1985). This called for the elimination of barriers between EC countries by the end of 1992 and set out 282 measures necessary to achieve this aim.

The Single European Act (SEA) sets out the formal procedure necessary to implement the 1993 Programme. It also modified the EC decisionmaking process and called for a revived integration effort in other fields such as technology and in monetary, social, regional and external policies. The SEA defined the Single European Market as 'an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured'.

The SEA represented the first major revision to the treaties, but at the time its importance was underestimated. The SEA launched a new phase in the integration process, spilling over into renewed efforts in political union, institutional reform, economic and monetary union, and reinforced EC social,

regional and competition policies. With regard to institutional reform, qualified majority voting was to be used in the Council for the harmonization of national rules and regulations. Unanimity voting was still to be used in the Council for questions relating to fiscal policy, the free movement of persons, and the rights and interests of employees.

However, the SEA contains formal recognition of the European Monetary System (EMS) and the role of the European Currency Unit (ECU).

The introduction of a single monetary unit would confirm the reality of the Single Market, but this in turn would push the integration process further. Democratic control of the new European Central Bank would require further steps in the direction of political union.

The SEA also called for increased Community responsibility for social policy, in particular on questions relating to the health and safety of workers. In 1988 the idea of a 'Social Europe' was launched, which entailed identifying the regions and industries most likely to be negatively affected by the 1993 Programme and offering some measures of compensation. It was also argued that social policy measures were necessary.

5. The main elements of the Single Market Programme: the Schengen Agreement and other aspects of the removal of frontier controls

A key aim of the removal of frontier controls is to facilitate free movement of people within the EU. In 1985 Benelux, Germany and France formed the Schengen Group with the aim of eliminating border controls between each other as rapidly as possible. Subsequently other countries joined the group, though the UK and Ireland opted out (but they participate in police and judicial cooperation).

Denmark has signed the Schengen Agreement, but has a partial opt out, and can choose whether to apply new measures on all questions except visas. In December 2007 Schengen was extended to all the countries joining the EU in 2004 except Cyprus. Non EU members of Schengen are Iceland, Norway and Switzerland. A protocol on the participation of Liechtenstein was signed in 2008.

In December 2010 France and Germany blocked the accession of Romania and Bulgaria to Schengen. The two countries had been updating their border security, computer systems and airport infrastructure. Schengen implies the removal of all controls on people (whether they are citizens of the EU or of third countries) when they cross frontiers between member states, though a safeguard clause allows a country to reinstate controls in the event of a serious threat to public policy, public health or public security.

In 1990 the Schengen countries agreed a Convention on Application of the Agreement, which entered into force in 1995 and was incorporated into a protocol to the Amsterdam Treaty in 1999.

The Schengen Information System (SIS) was set up and consists of a computer network for the exchange of information between national police forces (also adopted by the UK and Ireland). Other aspects of the elimination of border controls required by the internal market include the abolition of customs formalities, veterinary and road safety checks at frontiers.²⁵

²⁵ In addition to these measures of negative integration, positive integration or the introduction of common policies was used to facilitate the right to work in other member states and to develop exchange programmes, including EU programmes such as: ERASMUS (university exchanges) Leonardo da Vinci (training and vocational education); Comenius (for schools in order to help increase understanding of the range of European cultures and languages).

6. Differences in national rules and regulations

According to Mattéra (1988), at the time when the Single Market Programme was launched, differences in standards and technical barriers accounted for some 80 per cent of the remaining barriers to intra EC trade. Though the words are sometimes used interchangeably, 'technical regulations' refer to legally binding rules relating to the health and safety of consumers, while 'standards' are voluntary and aim to provide adequate information and ensure the quality of a product.

In some cases differences in technical regulations prevented crossborder trade, while in others it added to the costs of firms that had to modify their products to meet the requirements of other EC countries.

Article 30 of the Treaty of Rome prohibits quantitative restrictions on intraEC trade and 'all measures having an equivalent effect'. One way of eliminating these barriers to trade between member states is by harmonizing the national standards and technical regulations of member states.

Differences in national rules and regulations

While mutual recognition may work for relatively simple products, this is far less the case for more complex goods (Pelkmans, 2007). When a product was denied access to a country there was no clear procedure for a company to challenge a negative decision so the company was forced to modify the product or abandon that market.

To speed up the process of harmonization, in 1985 a 'new approach' was developed. Wherever harmonization of rules at the EU level was deemed necessary, it was decided that this should be limited to essential objectives and requirements. Directives cover large groups of products and hazards, and specify the essential safety, or other requirements the product must meet. The manufacturers are free to choose between applying either the appropriate EU standard or any other technical specifications that meet these essential

requirements. The new approach entailed the setting up of conformity assessment procedures and the CE marking. The CE marking implies that the manufacturer declares responsibility that the product satisfies the essential requirements of the relevant directives, and is in line with the conformity assessment so can circulate freely in the EU. Compliance is voluntary and manufacturers may choose not to observe EU standards, but the onus is on them to prove that their product is safe.

In 2008 a New Legislative Framework was adopted to modernize the 'new approach' by introducing better rules on market surveillance; improving conformity assessments; and clarifying the meaning of the CE trade mark. The task of defining technical specifications is left to private standardization bodies.

7. Fiscal harmonization

Differences in national tax systems represent a barrier to completion of the internal market in two ways. In the first place, tax differences may cause price distortions and so undermine the competitive process. Secondly, differences in national taxation have to be adjusted at the border, thereby necessitating controls at the frontier. Moreover, operating with different tax systems adds to the cost and complexity of doing business in other EU countries.

The EU has made slow progress in introducing fiscal harmonization, partly because this is one of the areas where unanimity voting is required in the Council. The power to tax is central to the sovereignty of a country, and differences in tax systems frequently reflect underlying differences in culture and tradition.

In 2007 VAT-type taxes accounted for 17.3 per cent of the total tax revenue of the member states. Since 2007 the system has been regulated by the VAT Directive. This provides general indications on what are to be considered as

taxable transactions and persons, rates of VAT, possible deductions and so on. It also exempts certain goods and services from VAT, such as medical care, social security work, school and university education, insurance and the granting of credit. However, application differs greatly from country to country.

Traditionally, VAT in the EU was applied according to the principle of destination, in other words it was paid in the country of consumption. If a product were traded between two member states, the tax would be paid in the importing country, and VAT paid in the exporting country would be refunded. This may be complex and costly for firms due to lack of knowledge about the legislation and language of the country to which they are exporting. The Commission proposed that with the introduction of the Single Market, the destination system should be replaced by a system based on the principle of origin, but little progress has been made in this direction, and reform of the system remains a long term goal.

8. The liberalization of public procurement

Public orders accounted for about 1718 per cent of EU GDP in 2008.

Measures relating to public procurement have been introduced in the sectors of telecommunications, water, energy and transport; to assist small and medium enterprises in competing for public procurement; and to provide legal remedies to firms that feel they have been unfairly excluded from contracts. However, in practice, public procurement has proved one of the most difficult markets to open. According to Monti (2010), cross border procurement accounts for only about 2 per cent of the total number of bids, and some sectors such as defence are subject to special rules. In 2010 an assessment of EU public procurement legislation was carried out based on wide ranging consultations to enable the Commission to make legislative proposals in 2012 at the latest.

The reform would aim at simplifying and updating EU rules to render the awarding of contracts more flexible and transparent, and to enable public contracts to provide more support to other policy goals such as the environment, innovation, employment and social inclusion (European Commission, 2010).

8.1 Liberalization of the service industries

Restrictions on free trade in services may take various forms:

- authorization procedures;
- quantitative restrictions;
- reserving a certain share of the market for home producers;
- government procurement;
- requirements with regard to labour qualifications;
- technical requirements and standards;
- exchange controls;
- subsidies.

Progress in liberalizing the EU service sector in the Community has been slow. Services account for 70 per cent of economic activity in the EU, but only 20 per cent of intraEU crossborder trade (Monti, 2010).

9. The Services Directive

In 2004 the Commissioner for the Internal Market, Frits Bolkestein, proposed a directive to create an effective Single Market for services by removing a large number of barriers that prevent or discourage cross border trade.

The Service Directive covers:

- business services such as management consultancy, advertising, certification and testing, facilities management including office maintenance, and the services of commercial agents;
- services provided to businesses and consumers such as estate agents and letting services, construction architects, distributive trades and the organization of trade fairs;
- consumer services, such as tourism, amusement parks, plumbers and electricians. Financial services, telecommunications, transport services, broadcasting and recognition of professional qualifications were already covered by specific legislation so were excluded from the directive.

10. The Monti Report of 2010

In 2006 an extensive public consultation on the Single European Market was carried out. On the basis of its results, the European Commission indicated various benefits of the internal market for EU citizens such as: opportunities to study abroad; easier travel in the EU; an improvement in the range and quality of products available; increased possibility of working or retiring in another member state; lower prices; and better protection of consumer rights.

Various benefits for businesses were also indicated: greater possibility of economies of scale; improved networks for transport, telecommunications and electricity; easier cross border trade; lower costs of setting up a new business; the advantages of EU standards and labels; new sources of financing, contracts and funding; and improved crossborder cooperation and technology transfer.

In 2007 the Commission carried out a review of initiatives of the previous twenty years related to the Single Market, assessing its achievements, and indicating ways in which it could be adapted better to meet the needs of the twenty first century.

Requested by the president of the Commission Barroso, the Monti Report (2010) sets out the challenges for the Single Market. The report stresses the importance of the Single Market for macroeconomic performance, increasing EU competitiveness through the Europe 2020 programme, and for the solidity of the euro and monetary union.

The Report proposes measures to cater more for: the needs of citizens, consumers and SMEs; the digital market; green growth; the goods and services markets; workers; capital and financial services and physical infrastructure.

The recommendations relate to: economic freedoms and workers' rights; social services and the Single Market; public procurement; taxation competitiveness and cohesion; industrial policy and the external dimension of the Single Market. The Report points out that strengthening enforcement of Single Market legislation is recommended

However, following the economic success of the Community until the mid-1970s, the Single Market Programme failed to stem the growing gap in GDP and productivity compared with the USA. Various explanations for this shortcoming have been advanced:

The Single Market Programme was mainly restricted to product and capital markets, excluding liberalization of labour markets. The poor economic performance of the Community was due to fragmentation of markets and inability to exploit economies of scale.

The Monti Report and Commission initiative of 2010 were aimed at addressing these shortcomings of the Single Market Programme. At the same time the Lisbon Strategy of 2000 and the Europe 2020 programme attempted to launch economic, social and environmental renewal of the EU.

EXERCISES

Questions for study and review

- Describe the main barriers causing fragmentation of the European market.
- What were the expected advantages of the Single Market Programme?
- Indicate the main steps in introducing the Single Market Programme.
- What was the significance of the Single European Act in the integration process?
- What measures are necessary to introduce a Single European Market for financial services?
- Do you consider the Monti Report of 2010 contributes to the debate on the future of Europe?

CHAPTER 6 - From the Lisbon Agenda to Europe 2020

Learning Outcomes

When finishing this chapter, you should be able to understand:

- ✓ What we mean by competitiveness?
- ✓ The link between the economic crisis and competitiveness
- ✓ Some of the possible effects of globalization on EU countries
- ✓ What we mean by the Lisbon Agenda
- ✓ The criticisms made of the Lisbon Agenda
- ✓ The main elements of the Europe 2020 programme
- ✓ How effective the EU has been in promoting a knowledgebased society
- ✓ The link between EU social policy and the Europe 2020 programme
- ✓ The main elements of EU social policy
- ✓ What the EU is doing to increase employment
- ✓ The main aspects of the European Employment Strategy
- ✓ What the EU is doing to combat poverty
- ✓ How effective EU social and employment policy has been
- ✓ The outlook for the Europe 2020 strategy How much specialization of industry there is in the EU.

INTRODUCTION

In addition to the gap compared with US economic performance, there was also growing concern regarding the challenge posed by emerging countries such as the BRICs (Brazil, Russia, India and China), and by China in particular. Raising competitiveness is also advocated to preserve the European model

(combining economic, social and environmental objectives) in the face of demographic ageing. Competitiveness can be defined as improving the overall economic performance of a nation measured in terms of ability to provide growing living standards on a sustainable basis and broad access to jobs.

The GDP per capita of the Community rose to about 70 per cent of the US level by the mid 1970s, but subsequently this gap failed to narrow. Differences in per capita income may be due to varying levels of production per worker, or differences in labour participation.²⁶ In addition to the gap compared with US economic performance, there was also growing concern regarding the challenge posed by the BRICs, with China emerging as a major economic actor, and India.

1. Lisbon Strategy

At the Lisbon European Council on 23 and 24 March 2000, the Heads of State and Government resolved to make Europe's economy the most competitive knowledge in the world working on increasing jobs and on economic growth until 2010. The achievement is set for 2010.

Key areas

The strategy gives pointers for some key reforms in EU countries:

- Investing in people –a flexible and highly skilled workforce. Lifelong learning projects help people to adapt to a changing job market.

²⁶ *Productivity on its own is insufficient to make international comparisons of competitiveness. A more useful measure is unit labour costs, which indicate the cost of labour input per unit of value added.*

- More research, development and innovation – strengthening links between research institutes, universities and businesses.
- A more dynamic business environment – easier access to credit, especially for small and medium-sized businesses.
- A greener economy – leading the fight against climate change.

1.1 Achievements

At the Lisbon summit on 23-24 March 2000, European leaders agreed to aim for an average economic growth of 3% and the creation of 20 million jobs by 2010. Following the adoption of the Lisbon Strategy in 2000, the European Council focused on assessing progress towards ‘making Europe the most competitive knowledge-based economy in the world’. The Commission published its ‘Spring Report’ as a basis for the 25-26 March 2004 Spring Summit in Brussels, where the former Dutch Prime Minister Wim Kok was chosen to head an independent expert group to review the first five years of the implementation of the Lisbon Strategy. Five years after the Lisbon Strategy was launched, results have been mixed.

1.2 Lisbon Strategy: Phase I - 2000-2005.

At the extraordinary meeting of the European Council of 23 and 24 March 2000 in Lisbon, the heads of state and government of the 15 countries of the EU defined a new strategic objective in order to strengthen employment, economic reform and social cohesion. The European Council put in place an overall strategy aimed at:

- preparing the transition to a knowledge-based economy and society by better policies for the information society and R&D,
- modernising the European social model, investing in people and combating social exclusion;

- sustaining the healthy economic outlook and favourable growth prospects by applying an appropriate macroeconomic policy mix.

The Lisbon European Council of 2000 considered that the overall aim of these measures should be, on the basis of the available statistics, to raise the employment rate from an average of 61 % at that time to as close as possible to 70 % by 2010 and to increase the number of women in employment from an average of 51 % at that time to more than 60 % by 2010. Given their different starting points, Member States had to consider setting national targets for an increased employment rate. This, by enlarging the labour force, would reinforce the sustainability of social protection systems.

The former Prime Minister of the Netherlands, Wim *Kok*, was appointed chairman of a group of experts charged with reviewing the Lisbon Strategy. The group's work proved decisive in drawing up the 2005 strategy. On 2 February 2005, the Commission proposed a new start for the Lisbon Strategy focusing the European Union's efforts on two principal tasks – delivering stronger, lasting growth, and more and better jobs. From that point on, the institutions of the European Union began to turn the new momentum for a relaunch into concrete action. The European Council of March, as well as the European Parliament and the European social partners, gave full support to the Commission's proposal to relaunch and refocus the Lisbon Strategy.

The new strategy focuses on:

- support for knowledge and innovation in Europe;
- reform of state aid policy;
- improvement and simplification of the regulatory framework in which business operates, and the completion of the internal market for services;

- the removal of obstacles to free movement in the areas of transport, labour and education;
- development of a common approach to economic migration;
- support for efforts to cope with the social consequences of economic restructuring.

At the European Council of March 2005, all the Member States made a commitment to draw up, by October 2005 and under their own responsibility, national reform programmes based on the integrated guidelines. The reform programmes take into account the diversity of situations and policy priorities at national level.

1.3 Lisbon Strategy: phase II - 2005-2010.

Particular attention needs to be paid to the delivery of the Lisbon agenda. In order to achieve the objectives of growth and employment, the Union must do more to mobilise all the resources at national and Community levels so that their synergies can be put to more effective use. To this end, the broad economic policy guidelines (BEPGs) reflect the new start for the Lisbon Strategy and concentrate on the contribution of economic policies to higher growth and more jobs.

In line with the conclusions of the Brussels European Council (22 and 23 March 2005), the BEPGs, as a general instrument for coordinating economic policies, should continue to embrace the whole range of macroeconomic and microeconomic policies, as well as employment policy insofar as this interacts with those policies; the BEPGs will ensure general economic consistency between the three strands of the strategy.

These guidelines are applicable to all Member States and to the Community. They should foster coherence of reform measures included in the national reform programmes established by Member States and will be complemented

by the Lisbon Community Programme 2005 to 2008 covering all actions to be undertaken at Community level in the interest of growth and employment. Implementation of all relevant aspects of these guidelines should take into account gender mainstreaming.

1.4 EU2020, the Post Lisbon Strategy

The worst economic and financial crisis in decades has hit Europe hard with a sharp economic contraction. The unemployment rate is set to rise to double digit figures in 2010, a level not Collective action to save the financial system and to boost demand and confidence through public intervention has helped to prevent an economic meltdown. The EU needs to make a stronger effort to work together to make a successful exit from the crisis and to shape the next generation of public policies in a very different set of circumstances.

The exit from the crisis should be the point of entry into a new sustainable social market economy, a smarter, greener economy. These new drivers should help us tap into new sources of sustainable growth and create new jobs to offset the higher level of unemployment our societies are likely to face in the coming years.

Delivering this sustainable growth requires agreement to an agenda that puts people and responsibility first. The efforts of a decade which resulted in a reduction of unemployment from 12% to 7% in the EU risk being undone by the crisis. We need new sources of growth to replace the jobs lost in the crisis. This new approach needs to take advantage of a world of globalisation and interdependence which the crisis has underlined still further. The EU needs to work both at home and in international fora like the G20 to seize the new opportunities essential to reach our 2020 objectives.

EU 2020 builds on its achievements as a partnership for growth and job creation, and renewing it to meet new challenges The Commission considers

that EU 2020 should focus on key policy areas where collaboration between EU and Member States can deliver the best results. The purpose of consultation is to seek the views of the other Institutions and stakeholders on a new approach. The successful delivery of the 2020 vision relies on a partnership for progress, combining Member States' commitment to take action at national level, and the harnessing of Community instruments to make the most of the potential at EU level.

1.5 Recognising constraints and facing new challenges

A successful EU 2020 strategy must be built on a good analysis of the constraints facing policy makers in the coming years, and on the correct identification of the challenges to be tackled.

The financial and economic crisis has taken a heavy toll on public finances, businesses, employment and households. As public sector deficits are brought back under control, public expenditure needs to be reshaped in ways that enable us to reach the 2020 vision. In developing a new vision and direction for EU policy, we need to recognise that conserving energy, natural resources and raw materials, using them more efficiently and increasing productivity will be the key drivers of the future competitiveness of our industry and our economies.

The crisis has exacerbated the long-term social challenges Europe faces today, such as the integration of an increasing immigrant population, social exclusion and child poverty, and solidarity between generations in the context of an ageing society.

This implies that new policies must demonstrably contribute to social cohesion, tackling unemployment and fostering social inclusion while securing well performing labour markets. This requires rethinking education systems

and labour markets, enhancing mobility and boosting Europe's dynamism to unleash our innovative and creative potential.

2. Key priorities for EU 2020

This is an agenda for all Member States, large and small, old and new, highly developed and still developing: the enlarged EU consists of different levels of development and therefore different needs. The EU 2020 vision is relevant to all of them .

The Commission's aim is for Europe to lead, compete and prosper as a knowledge-based, connected, greener and more inclusive economy, growing fast and sustainably, creating high levels of employment and social progress. To achieve this, Europe needs a strengthened and competitive industrial base, a modern service sector and rural economy, and maritime sector.

The Commission considers that the key drivers of EU 2020 should be thematic, focused on the following priorities:

1. *Creating value by basing growth on knowledge.* Opportunity and social cohesion will be enhanced in a world where innovation makes the difference in both products and processes, harnessing the potential of education, research and of the digital economy;
2. *Empowering people in inclusive societies.* The acquisition of new skills, fostering creativity and innovation, the development of entrepreneurship and a smooth transition between jobs will be crucial in a world which will offer more jobs in exchange for greater adaptability;
3. *Creating a competitive, connected and greener economy.* The EU should compete more effectively and increase its productivity by a lower and more efficient consumption of non-renewable energy and resources in a world of high energy and resources prices, and greater competition for

energy and resources. This will stimulate growth and help meet our environmental goals. It will benefit all sectors of the economy, from traditional manufacturing to new hi-tech start ups. Upgrading and inter-connecting infrastructure, reducing administrative burden and accelerating the market uptake of innovations will equally contribute to this goal.

To measure progress in meeting the Europe 2020 goals, 5 headline targets have been agreed for the whole EU.

The Sapir Report agreed that the objectives of the Lisbon Agenda were rightly ambitious, but maintained that the Agenda rested on an excessive number of targets and a weak method. The KOK Report also criticized the Lisbon Strategy for an overloaded agenda and insufficient political commitment. It proposed focusing on growth and employment, but still favoured maintaining too many priorities. The Barroso Commission attempted to revise the Lisbon Agenda in 2005, focusing on Completion of the Single Market, more and better jobs, knowledge and innovation, and improved implementation.

In 2010 the Europe 2020 strategy replaced the Lisbon Agenda and set out a programme for: smart growth (fostering knowledge, innovation, education and the digital society) sustainable growth, and inclusive growth (enhancing labour market participation, skills).

- More and better jobs
- The development of new technologies
- Cutting edge research
- High-speed internet access
- Smart transport and energy infrastructure
- Energy efficiency and renewable energies
- Business development
- Skills and training

To foster growth, the EU must encourage trading in open, fair markets worldwide, within a rule-based international framework. It will promote *external aspects* of various *internal policies* (e.g. energy, transport, agriculture, R&D) and trade and international *macroeconomic policy* coordination. The EU also wants to build strategic relationships with emerging economies, to discuss issues of common concern, promote cooperation on regulation and other matters, and resolve bilateral issues. In this context, the Commission presented a new trade strategy in November 2010.

EXERCISES

Questions and review

- What are the negative aspects of globalization?
- What are the main objectives of the Lisbon Strategy?
- Describe the principal aspects of the Europe 2020 strategy.
- What criticisms have been made of the Lisbon Strategy and of Europe 2020?
- What measures do you think should be introduced to promote growth and the increased competitiveness of the EU?

CHAPTER 7 - Decision-Making

Learning Outcomes

When finishing this chapter, you should be able to understand:

- ✓ The decisionmaking procedures of the EU
- ✓ Supranational Decision-Making Procedures
- ✓ Legal system of the European Union

INTRODUCTION

1. Supranational DecisionMaking Procedures

The Member States of the European Union have agreed, as a result of their membership to the EU, to transfer some of their powers to the EU institutions in specified policy areas.

The Treaty of Rome gave the Commission powers of proposal and negotiation, mainly in the fields of legislation and external economic relations, and allocated powers for decision-making to the Council or, in the case of appointments, representatives of the Member States' governments. It gave Parliament a consultative power.

Parliament's role has gradually grown, in the budgetary domain with the reforms of 1970 and 1975, in the legislative domain with the Single European Act, and in the area of appointments with the Treaty of Maastricht. The Single European Act also gave Parliament the power to authorise ratification of accession and association treaties. Maastricht extended that power to other international treaties of certain kinds. The Treaty of Amsterdam made substantial progress down the road to democratising the Community, by

simplifying the codecision procedure, extending it to new areas and strengthening Parliament's role in appointing the Commission.

The main forms of EU law are directives and regulations. The rules and procedures for EU decision-making are laid down in the treaties. Every proposal for a new European law is based on a specific treaty article, referred to as the 'legal basis' of the proposal. This determines which legislative procedure must be followed. The decision-making procedures comprise

- the assent procedure,
- the cooperation procedure,
- the consultation procedure and
- the codecision procedure.

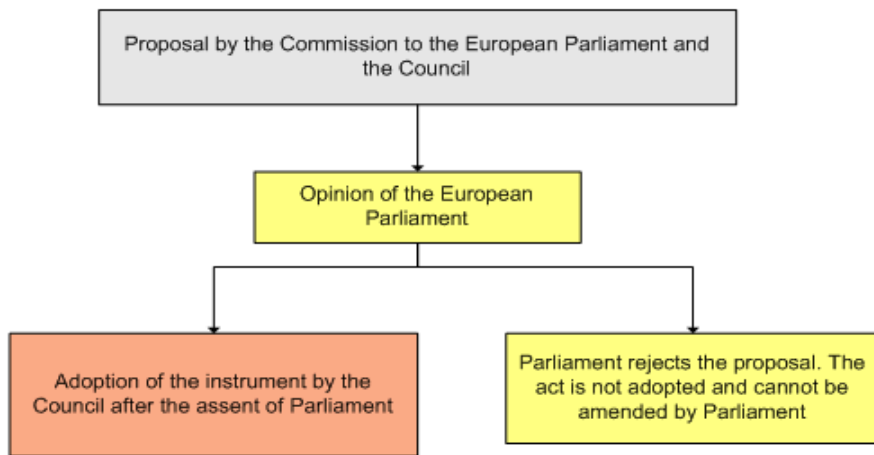
Assent procedure

The assent procedure, which was introduced by the Single European Act, gives Parliament the possibility of expressing its approval or disapproval of certain Council instruments. There are certain matters on which the Council cannot legislate unless Parliament gives its consent by an absolute majority of its members. The areas in which the assent procedure applies at present are as follows:

- enhanced cooperation,
- specific tasks of the ECB, and amending the Statute of the European System of Central Banks,
- Structural Funds and the Cohesion Fund,
- uniform procedure for elections,
- certain international agreements,

- violation of human rights,
- accession of new Member States.

Assent procedure



1. Figure Assent procedure

Source: eur-lex.europa.eu

2. Co-operation procedure

The cooperation procedure was introduced by the Single European Act to step up the role of the European Parliament compared with the consultation procedure. Parliament can make amendments to a Council common position but, unlike the co-decision procedure, the final decision lies with the Council alone.

The cooperation procedure applies exclusively to the following areas:

- rules for the multilateral surveillance procedure (Article 99(5)),
- prohibition on privileged access to financial institutions (Article 102(2)),

- prohibition on assuming liability for Member States' commitments (Article 103(2)),
- measures to harmonise the circulation of coins (Article 106(2)).

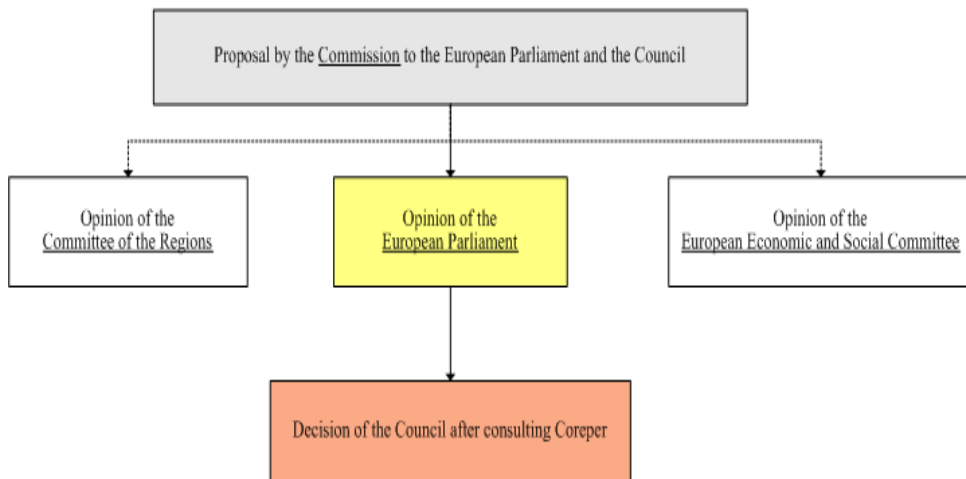
Since the entry into force of the Treaty of Amsterdam, all other areas previously subject to this procedure have come under the co-decision procedure.

3. Consultation procedure

Since the introduction of the cooperation procedure and the co-decision procedure, the importance of the consultation procedure has steadily declined. The characteristic feature of the consultation procedure is a division of tasks between the Commission and the Council that can be summed up in the phrase 'the Commission proposes, the Council disposes'. However, before the Council can take a decision, certain stages have to be completed, in the course of which, besides the Commission and the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions may also have their say, depending on the subject of the regulations in question. Parliament can approve the Commission proposal, reject it or ask for amendments.

The consultation procedure now applies only to cases that are not expressly subject to the cooperation or codecision procedures.

Consultation procedure



2. Figure Consultation procedure

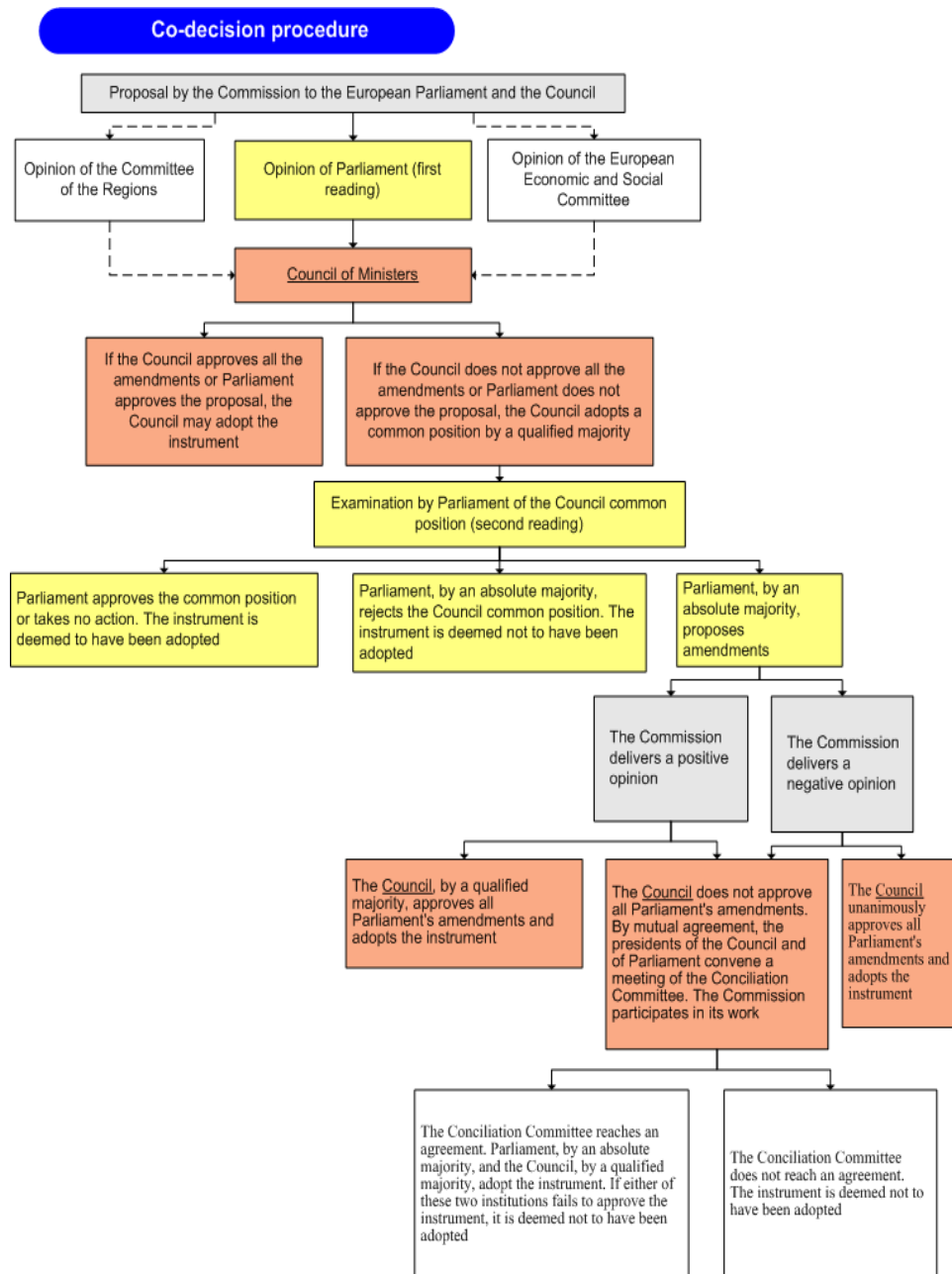
Source: eur-lex.europa.eu

4. Codecision procedure

The codecision procedure, which was introduced by the Treaty on European Union, was conceived as an extension of the cooperation procedure. In the event of disagreement, a conciliation committee made up of representatives of the Council and of Parliament has to arrive at a text that is acceptable to the two institutions. The co-decision procedure now puts these two institutions on an equal footing in the legislative roles. Under this procedure, the Council cannot adopt a common position if the process of conciliation with Parliament fails. If no agreement is reached, the legislative process is liable to be broken off. Codecision has become by far the most important procedure in legislative practice.

It concerns the following areas:

<ul style="list-style-type: none"> • non-discrimination on grounds of nationality, 	<ul style="list-style-type: none"> • combating discrimination based on sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation)
<ul style="list-style-type: none"> • freedom of movement and of residence, 	<ul style="list-style-type: none"> • free movement of workers,
<ul style="list-style-type: none"> • social security for migrant workers , 	<ul style="list-style-type: none"> • right of establishment,
<ul style="list-style-type: none"> • visas, asylum, immigration and other policies relating to the free movement of persons, 	<ul style="list-style-type: none"> • transport,
<ul style="list-style-type: none"> • the internal market, 	<ul style="list-style-type: none"> • employment,
<ul style="list-style-type: none"> • customs cooperation, 	<ul style="list-style-type: none"> • social policy,
<ul style="list-style-type: none"> • equal opportunities and equal treatment, 	<ul style="list-style-type: none"> • implementing decisions relating to the European Social Fund,
<ul style="list-style-type: none"> • education, 	<ul style="list-style-type: none"> • culture (except recommendations),
<ul style="list-style-type: none"> • public health, 	<ul style="list-style-type: none"> • consumer protection,
<ul style="list-style-type: none"> • trans-European networks, 	<ul style="list-style-type: none"> • industry,
<ul style="list-style-type: none"> • economic and social cohesion, 	<ul style="list-style-type: none"> • European Regional Development Fund,
<ul style="list-style-type: none"> • research and technological development, 	<ul style="list-style-type: none"> • vocational training,
<ul style="list-style-type: none"> • the environment, 	<ul style="list-style-type: none"> • development cooperation,
<ul style="list-style-type: none"> • political parties at European level, 	<ul style="list-style-type: none"> • access to the institutions' documents,
<ul style="list-style-type: none"> • fraud, 	<ul style="list-style-type: none"> • statistics,
<ul style="list-style-type: none"> • establishing a supervisory body for data protection. 	



3. Figure: Co-decision procedure

Source: eur-lex.europa.eu

5. Intergovernmental Decision-Making Procedures

In the common foreign and security policy and in judicial cooperation in criminal matters, as well as in several other fields, the decision-making procedure is different from the one provided in the Treaty establishing the European Community. The dominant feature in these fields is intergovernmental cooperation although this would change for former third pillar policies under the Lisbon Treaty.

The Treaty on European Union (TEU) lays down a number of rules and procedures of a constitutional nature. For the common foreign and security policy and police and judicial cooperation in criminal matters it sets up a special form of intergovernmental cooperation in the guise of action by supranational institutions. These procedures are distinct from those covered by the Treaty establishing the European Community.

A. Procedure for amendment of the Treaties (Article 48 TEU):

B. Accession procedure (Article 49 TEU):

C. Sanctions procedure for a serious and persistent breach of Union principles by a Member State (Article 7 TEU)

1. Main procedure:

2. The Treaty of Nice supplemented this procedure with a precautionary system:

D. Closer cooperation procedure

1. Cooperation in the Community sphere (Article 11 TEC)

2. Cooperation in the fields of justice and home affairs (Article 40 A TEU)

E. Procedure for decisions in foreign affairs

1. In general:

2. Common strategies, joint actions and common positions (Article 23 TEU)

3. International agreements (Article 24 TEU)

F. Procedure for decisions on police and judicial cooperation in criminal matters (Article 34 TEU):

6. After the Lisbon Treaty

The Article 289 of the Treaty on the Functioning of the EU now only refers to two types of legislative procedure:

- ordinary legislative procedure;
- special legislative procedures.

Ordinary legislative procedure

The ordinary legislative procedure replaces the former co-decision procedure. This procedure is the most legitimate from a democratic point of view. It involves the European Parliament as a co-legislator at the Council's side. Over time, it has also become the most widely used legislative procedure. The Treaty of Lisbon therefore confirms this trend by changing its name and establishing it as a common law procedure. Continuing on from previous Treaties, the Treaty of Lisbon also extends the ordinary legislative procedure to new areas of policy.

Special legislative procedures

Special legislative procedures replace the former

- consultative,
- cooperation and
- assent procedures.

The objective is to simplify the EU's decision-making process by making it clearer and more effective. As their name indicates, these procedures derogate from the ordinary legislative procedure and therefore constitute exceptions. In

special legislative procedures, the Council of the EU is, in practice, the sole legislator. The European Parliament is simply associated with the procedure. Its role is thus limited to consultation or approval depending on the case.

Unlike the ordinary legislative procedure, the Treaty on the Functioning of the EU does not give a precise description of special legislative procedures.

The rules of special legislative procedures are therefore defined on an **ad hoc basis** by the Articles of the Treaty on European Union and the Treaty on the Functioning of the EU that provide for their implementation.

7. Legal system of the european union

The main sources of EU law are:

- EU primary legislation, represented by the treaties
- EU secondary legislation, in the form of regulations, directives, decisions, recommendations and opinions
- rulings on cases brought before the European Court of Justice, case law.

EU law is created by the legislative powers. The law created by EU institutions is also binding on all EU member states (Article 10 EC).

8. Primary legislation – The Treaties

The treaties constitute the European Union's 'primary legislation', which is comparable to constitutional law at national level. They thus lay down the fundamental features of the Union, in particular the responsibilities of the various actors in the decision-making process, the legislative procedures, under the Community system and the powers conferred on them. Besides the two fundamental treaties, the Treaty establishing the European Community and the Treaty on European Union, the EUR-Lex system provides access to the Euratom Treaty, the Accession Treaties and other treaties and protocols.

8.1 Treaty establishing a Constitution for Europe

The essential features of the Constitutional Treaty are as follows:

- inclusion in the text of the Treaty of the Charter of Fundamental Rights,
- a new definition of the European Union to replace the current 'European Community' and 'European Union',
- a clearer presentation of the distribution of powers between the Union and the Member States,
- a revised institutional framework, clarifying the respective roles of the European Parliament, the Council and the Commission,
- more effective decision-making procedures,
- making the system more democratic and transparent.

8.2 Treaty establishing the European Community (EC Treaty)

The main purpose of the Treaty establishing the European Community (EC Treaty) was to bring about the gradual integration of the States of Europe and to establish a common market founded on the four freedoms of movement (for goods, services, people and capital) and on the gradual approximation of economic policies.

The present EC Treaty results from the amendments made to the Treaty establishing the European Economic Community (EEC Treaty), which was signed in Rome in 1957 and came into force on 1 January 1958. That treaty has been amended several times, in particular by the Single European Act, which came into force in 1987, the Treaty of Maastricht (Treaty on European Union), which came into force in 1993, the Treaty of Amsterdam, which came into force in 1999, and the Treaty of Nice, which came into force on 1 February 2003. As a result of these amendments, the sectors falling under the EC Treaty

have been extended so that they now include nearly all aspects of the economy and certain more specifically political matters, such as the right of asylum and immigration.

8.3 Treaty on European Union (EU Treaty)

The Treaty on European Union (EU Treaty) pursues two main objectives: the creation of a monetary union by laying down the principles and arrangements for the introduction of the euro and the creation of an economic and political union. This is the treaty that originated the concept of a three-pillar structure, the first pillar consisting of the European Community and the other two of the common foreign and security policy and police and judicial cooperation in criminal matters.

The Member States wished to preserve their independent decision-making powers and restrict themselves to an intergovernmental form of cooperation. The most important legal instruments in these fields are the joint action, the common position, and the framework decision, which are almost always adopted unanimously and are binding only to a limited extent. The original EU Treaty (the Treaty of Maastricht) came into force on 1 November 1993 and has been amended successively by the Treaty of Amsterdam, which came into force in 1999, and the Treaty of Nice, which came into force on 1 February 2003.²⁷

²⁷*It is also important to remember that the EU Treaty changed the designation of the European Economic Community (EEC) to European Community (EC), while the other two Communities, the ECSC (see ECSC Treaty) and Euratom (see Euratom Treaty) were merged with that Community.*

8.4 Treaty establishing the European Atomic Energy Community

The Treaty establishing the European Atomic Energy Community (Euratom Treaty) was signed in Rome on 25 March 1957 and came into force on 1 January 1958 at the same time as the EEC Treaty (see EC Treaty). The aim of the Euratom Treaty was to coordinate the research programmes already undertaken or planned by the Member States for the peaceful use of nuclear energy. This treaty has now in a sense been absorbed into the EC Treaty.

8.5 Accession Treaties

The Accession Treaties contain the terms laid down for the new countries' accession to the European Union and the necessary adjustments to the treaties on which the Union is founded.

Other treaties and protocols

- Treaty establishing the European Coal and Steel Community (1951)
- Merger Treaty (1965)
- Single European Act (1986)
- Treaty of Amsterdam (1997)
- Treaty of Nice (2001)
- Treaty of Lisbon (2007)

9. Secondary legislation

The 'secondary legislation' is the third major source of Community law after the treaties (primary legislation) and international agreements. Secondary legislation comprises the binding legal instruments (regulations, directives and decisions) and non-binding instruments (resolutions, opinions) provided for in

the EC Treaty, together with a whole series of other instruments such as the institutions' internal regulations and Community action programmes.

Regulation

A regulation is a general measure that is binding in all its parts. Unlike directives, which are addressed to the Member States, and decisions, which are for specified recipients, regulations are addressed to everyone. A regulation is directly applicable.

Directive

Adopted by the Council in conjunction with the European Parliament or by the Commission alone, a directive is addressed to the Member States. Its main purpose is to align national legislation. A directive is binding on the Member States.

Decision

A decision is the instrument by which the Community institutions give a ruling on a particular matter. A decision is: an individual measure, and the persons to whom it is addressed must be specified individually,

Recommendation

A recommendation allows the institutions to make their views known and to suggest an action without imposing any legal obligation on those to whom it is addressed (the Member States, other institutions, or in certain cases the citizens of the Union).

Opinion

An opinion is an instrument that allows the institutions to make a statement in a non-binding fashion.

<i>Type of law</i>	<i>Effect</i>
Treaties	Directly applicable
Regulations	Directly applicable
Directives	Not directly applicable, but individuals can claim against the state for loss caused by a failure to implement the directive
Decisions	Decisions are binding only on those to whom they are addressed
Recommendations and opinions	These have no binding force and are of 'persuasive' authority only

0.1. Table Types of law and their effects

10. Other instruments

Joint action (common foreign and security policy)

A joint action is a legal instrument under Title V of the Treaty on European Union and is thus of an intergovernmental nature. A joint action is binding on the Member States, which have to achieve the objectives set unless major difficulties arise.

Joint action (police and judicial cooperation in criminal matters)

Decision, framework decision and joint action (police and judicial cooperation in criminal matters)

Since the entry into force of the Treaty of Amsterdam, decisions and framework decisions have replaced joint actions in the field of police and judicial cooperation in criminal matters. These are legal instruments under Title VI of the Treaty on European Union that are intergovernmental in nature. Decisions and framework decisions are adopted by the Council of the European Union unanimously on the initiative of the Commission or a Member State.

Decisions are used in the field of police and judicial cooperation in criminal matters for any purpose other than the approximation of the laws and regulations of the Member State, which is the preserve of framework decisions.

11. Unwritten Community law

These are the general principles of Community law, particularly:

- the fundamental rights guaranteed by the European Convention for the Protection of Human Rights and Fundamental Freedoms and the constitutional traditions of the Member States recognised at Union level by Article 6(2) of the Treaty on European Union (TEU) as general principles of Community law: the right to defence, the right to respect for one's private life, etc.;
- the principle of a Community based on the rule of law;
- the principles of proportionality, legitimate expectations, etc.

Common position (common foreign and security policy and police and judicial cooperation in criminal matters)

The common position in the context of the common foreign and security policy and police and judicial cooperation in criminal matters is a legal instrument under Titles V and VI of the Treaty on European Union and is

intergovernmental in nature. Adopted unanimously by the Council of the European Union, it determines the Union's approach to particular questions of foreign and security policy or police and judicial cooperation in criminal matters and gives guidance for the pursuit of national policies in these fields.

International agreements (common foreign and security policy and police and judicial cooperation in criminal matters)

These are a legal instrument under Titles V and VI of the Treaty on European Union that was not provided for in the Treaty of Maastricht. The agreements are binding on the institutions of the Union, but not on the Member States whose constitutional provisions lay down particular rules for concluding such agreements. In such cases the other Member States meeting within the Council can decide that the agreement will nonetheless be applicable on a provisional basis.

Case-law

All the decisions handed down by bodies exercising judicial powers constitute case-law. The Court of Justice and the Court of First Instance of the European Communities are the judicial institutions of the European Union.

Judgments

The Court of Justice and the Court of First Instance hand down judgments, which are decisions that conclude a litigation procedure. There is no appeal against judgments of the Court of Justice. An appeal against a judgment of the Court of First Instance can be brought before the Court of Justice.

Hierarchy within Community law

Primary Community law is at the pinnacle of the hierarchy of law. The provisions of primary law are fundamentally of equal rank; this also applies to unwritten Community law, in other words general legal principles. However, international treaties concluded by the Community rank below primary and unwritten Community law. These are duly followed by secondary Community law, i.e. to be valid, such legal acts must be compatible with hierarchically superior law.

The Treaty of Lisbon introduces a hierarchy for secondary law by drawing a clear distinction between legislative acts, delegated acts and implementing acts. Legislative acts are legal acts which are adopted through ordinary or special legislative procedures. Delegated acts for their part are non-legislative acts with a broad scope which supplement or amend certain non-essential parts of a legislative act.

Orders

The Court of Justice and the Court of First Instance issue orders in a variety of instances, as laid down in the Rules of Procedure, which fall broadly into three groups:

instances during the investigation of a case (for example, acts ordering the preservation of evidence, or separating, joining or suspending cases);

instances where the Court takes a decision without considering the substance of the case (for example, in the event of manifest inadmissibility of the case or lack of jurisdiction);

instances where the Court takes a decision on the substance of the case; here, the orders are in fact simplified judgments that are used when the case is identical to others on which a judgment has already been handed down.

Orders can in principle be amended or revoked.

The relationship between EU law and domestic law

It is important to understand the relationship between EU law and the domestic (national) law of the EU member states. This is guided by a number of important principles.

The supremacy of EU law

Whenever there is a conflict between the provisions of EU law and the provisions of the domestic (national) law of a member state, then EU law will prevail. This is a principle which was developed by the ECJ as the relationship between domestic and EU law is not clarified by treaty provisions. This is an important principle, as it ensures the proper functioning of the EU.

The principle of direct effect

Does the principle of supremacy of EU law mean that the ECJ is the only court in charge of applying and enforcing EU law? The answer to this question is 'no', which is the consequence of the principle of direct effect. Certain provisions of EU law may confer rights or impose obligations on individuals that national courts are bound to recognise and enforce. This means that the national courts must apply the directly applicable EU rules and must do so in priority over any conflicting provisions of national law.

The principle of proportionality

This principle has been developed and refined by the ECJ and is also covered by Article 5 EC: Any action of the Community shall not go beyond what is necessary to achieve the objectives of this Treaty.

The principle of subsidiarity



It requires decision-making bodies with responsibility for larger areas to perform only those functions that decision-making bodies with responsibility for smaller areas cannot fulfil themselves.

EXERCISES

Questions for study and review

- What does it mean to say that the EU is based on the rule of law?
- What are the main functions of EU law?
- How does EU law seek to ensure that MSs meet their obligations under EU law?
- On what bases are fundamental rights recognized in EU law?
- What constraints are there on EU competences?
- What are the main kinds of law that the EU can enact and how do they differ?
- How has the ECJ strengthened its enforcement role?
- The doctrines of supremacy and direct effect are fundamental to understanding the nature of EU law.' Discuss.
- 'National courts are EU courts.' Discuss.

CHAPTER 8 - Theory of Economic and Monetary Union

Learning Outcomes

When finishing this chapter, you should be able to understand:

- ✓ What we mean by an optimum currency area
- ✓ The main expected costs and benefits of introducing the euro
- ✓ What the conditions are for joining an optimum currency area
- ✓ Whether the EU constitutes an optimal currency area
- ✓ What the conditions are for Britain to join the euro
- ✓ Whether the EU could become an optimal currency area

INTRODUCTION

From 1 January 2002 twelve EU countries replaced their national currencies with euro notes and coins. Only three of the member states of that time remained out of what became known as the 'eurozone' or 'euro area': the UK, Denmark and Sweden.

In May 1998 the decision concerning which countries could join the euro was taken (later for Greece which became a member from 1 January 2001). In June 1998 the European Central Bank (ECB) came into operation in Frankfurt. Slovenia joined the eurozone in January 2007, Cyprus and Malta in 2008, Slovakia in 2009 and Estonia in 2011. The countries of the eurozone adopted a common interest rate and (at least in theory) close coordination of their fiscal policies.

What were the expected advantages of adopting a single currency, and what were the possible costs of giving up exchange rate changes? Which countries

were ready to adopt the euro? This chapter presents the theory used in attempting to address these questions.

1. The theory of optimum currency areas

Early theoretical assessments of whether countries should join together to form an economic and monetary union (EMU) generally make use of the concept of an optimum currency area (OCA). A currency area may be defined as either a group of countries that maintain their separate currencies but fix the exchange rates between themselves permanently.

They also maintain full convertibility among their currencies and flexible exchange rates towards third countries. Alternatively, the member states may adopt a common currency, which floats against that of third currencies.

1.1 The benefits of economic and monetary union

The early literature in this field concentrates on finding individual criteria that are necessary and sufficient to identify optimum currency areas. Possible candidates include trade integration, international factor mobility, financial integration, the diversification of production, convergence of inflation rates and integration of economic policies (Mongelli, 2005). As can be seen, most of these also indicate the degree of integration between the member countries. In order to decide whether membership is advantageous or not, it is necessary to identify the different costs and benefits involved and attach weights to each of these. According to Krugman (1990), the benefits of forming an EMU will increase, and the costs will decline, as the level of integration rises. The level of integration can be measured by, for example, the ratio of intraEU trade to GDP. It is useful at this stage to identify the various possible costs and benefits of EMU.

2. The benefits of economic and monetary union

The benefits of EMU include the following:

- In changing from one currency to another, not only does a customer have to pay a commission but the price paid for buying a currency is higher than that received for selling at any given time.
- Economic and monetary union represents a further step towards completion of the Single Market. Quoting all prices in a single currency was expected to provide a further stimulus to price convergence in the EU.
- Introduction of the single currency could encourage the creation of a deeper, wider, more liquid capital market.

Following the pioneering work of Andrew Rose (Rose, 2000, 2002; also Frankel and Rose, 2000), various studies have shown how introducing a common currency encourages trade growth. Rose (2000) found that countries with the same legal tender have trade flows between each other on average 100 per cent higher than those between pairs of countries that are not members of a monetary union.

In a review of studies of the Rose result, Baldwin (2005) found an effect of 50 per cent or more for smaller countries. On the basis of a survey of the literature, Rose (2008) suggests that EMU could have increased trade in the eurozone by between 8 and 23 per cent. A later study by Baldwin et al. (2008) concludes that the euro has probably increased trade by about 5 per cent, which was less than previously thought, but still substantial.

The Rose (2000) analysis was based on a crosscountry dataset covering bilateral trade between 186 economic systems at fiveyear intervals, using a linear gravity model. One of the surprising outcomes of Rose's study is that exchange rate volatility plays little significant role in the picture. Rose (2002) considers 24 studies of the impact of currency unions on trade, and despite the differences in approach and coverage of the studies, all seem to confirm that currency unions have a positive impact on trade.

Most theoretical assessments of whether countries should join together to form an economic and monetary union take the traditional optimal currency area

approach as a starting point but attempt to assess the various costs and benefits.

- **The main benefits of EMU** are: a saving in transaction costs; increased transparency in comparing prices; encouraging the creation of deeper and wider capital markets; increased trade; the use of the euro as an international reserve could yield seigniorage; the introduction of a common monetary policy which may permit countries to 'borrow credibility'; improved location of industry
- **The main costs of EMU are:** loss of monetary policy autonomy, including the possibility of exchange rate changes among the member states; the psychological cost of losing a national currency; the technical costs of changeover, and loss of seigniorage for some member states.
- The role of the exchange rate mechanism is to compensate asymmetric shocks, that is, shocks that affect in different ways the countries involved.
- When a country is small and open to trade the cost of giving up the exchange rate mechanism is lower.
- Countries whose production and exports are diversified and of similar structure are more suited to forming a currency union (the Kenen criterion).
- The Mundell criterion maintains that easier movement of people is a condition for OCAs.
- In general it is assumed that the costs of forming an EMU will fall, and the benefits will rise, as the level of integration increases. At the point of intersection between the cost and benefit lines it becomes worthwhile for a country to join a currency area.

The economist view maintains that a higher level of coordination of economic policies and integration is necessary before creating a monetary union.

- *The main criteria in deciding whether a country should form part of a currency area include: openness; the degree of similarity of the structure of production and trade; existence of alternative adjustment mechanisms such as labour movement or the possibility of transfers;*

- Though the EU is not now an OCA, the mere creation of EMU could help progress in this direction. Joining a monetary union encourages rapid growth of trade, speeding up the integration process. Some authors have found empirical evidence that increased integration reduces the likelihood of asymmetric shocks so facilitating the creation of a currency union.

- *EXERCISES*

Questions for study and review

- What do you consider the main costs and benefits of introducing a single currency?
- How effective is the exchange rate instrument in correcting asymmetric shocks? What other instruments could be used?
- Does the likelihood of asymmetric shocks increase or decrease as the level of integration rises?
- What are the conditions for forming an optimal currency area?
- Is the eurozone an optimal currency area?
- Could the EU become an optimal currency area?

CHAPTER 9 - Common trade policy

Learning Outcomes

When finishing this chapter, you should be able to understand:

- ✓ This chapter provides an overview of the European Union's external relations of an economic nature, and in particular covers the Common Trade Policy (or Common 'Commercial' Policy).
- ✓ This chapter also deals with trade-related relations. Which have evolved during the European integration process to extend beyond purely foreign trade aspects. Along with economic relations, European integration has led to the establishment of a comprehensive system of external relations, which encompasses nearly all regions of the world and almost all areas of life. Understand the concept of organisational behaviour.

INTRODUCTION

1. The functioning of the Common Trade Policy of the European Union

The need to introduce a common trade (or commercial) policy stems from one of the main objectives of the formation of the Communities, the customs union. With the customs union, the Member States delegated the regulation of trade with third countries to the Community level. The essence of a customs union is that customs duties should be abolished in respect of trade between Member States, and a common, uniform system of tariffs should be applied for countries outside the Community.

The significance and weight of the EU in the global economy is evidenced by the fact that the majority of developing and emerging countries have signed trade agreements with the EU, which also cover trade preferences and financial subsidies.

Article 133 of the Treaty on the European Community, TEC), the following activities are normally understood to fall within the Common Trade Policy:

- changes in tariff rates;
- the conclusion of tariff and trade agreements related to trade in goods and services;
- trade aspects of intellectual property rights;
- measures concerning foreign direct investment;
- the achievement of uniformity in measures of liberalisation;
- export policy;
- measures to protect trade, such as those to be taken in the event of dumping or unfair subsidies.

It is important to underline that the Common Commercial Policy relates to trade carried out with countries outside the EU and that, for trade within the EU, the rules for the internal market apply.' **Trade in agricultural products does not come** under the Common Commercial Policy, but is governed by the provisions of the Common Agricultural Policy'.

The Common Commercial Policy entered into force in 1970 after the permanent removal of customs duties between Member States, but certain of its elements only came into operation from 1975, due to the bilateral trade agreements in force for some Member States (e.g. agreements with the then socialist countries of Central and Eastern Europe). From 1970, however, the Member States could no longer make bilateral trade agreements with countries outside the Community. With the introduction of the Common Commercial

Policy, the individual Member States could no longer make decisions on questions of foreign trade, and trade policy became an exclusive Community competence. Specifying common customs tariffs and carrying out trade negotiations and measures for trade protection (e.g. anti-dumping) are matters which are dealt with at Union level. The main guarantee for the implementation and success of the trade policy is the common system of instruments (e.g. Common Customs Tariff, dumping procedures, etc.)

Since the customs union was established, the Member States have applied a Common Customs Tariff for goods coming into the EU'. This means that no matter where the product crosses the EU border, the exporter can expect the same conditions.

The Member States cannot gain a competitive advantage over each other by fixing lower customs duties, but a product from outside the Union, on which customs has been paid in one country, can be freely transported to another Member State.

Trade policy is one of the areas where the Commission has greatest independence, and the greatest authority to make and implement decisions.

The Parliament participates in trade policy in the case of important international agreements since, under the Treaty, the Parliament too must approve certain agreements (such as association agreements), which have a wider scope'.

2. The conclusion of international agreements

Before the Treaty of Lisbon, the Union had no international legal personality and hence could not be a signatory to agreements. Until 1 December 2009,

when the Lisbon Treaty entered into force, only the European Community could conclude International agreements, the EC Treaty having given the Community the right to conclude international agreements in certain areas.

3. Characteristics of the EU's multilateral external relations

The Treaty of Rome laid down provisions governing relations between the then EEC and certain international organisations (the UN, GATT, OECD, and the Council of Europe). There is, however, a difference in relations between the various international organisations and the Union, according to what type of Union competence they fall under.

It is important to emphasise that representatives of the Member States are also present in several cases where the High Representative or the Commission negotiates in the name of the Union with international organisations.

To this end, the Member States regularly negotiate with representatives of the Commission, the High Representative and the President of the Council.

4. The system of agreements defining the bilateral external relations of the EU

The EU develops relations with third countries according to two basic principles. On the one hand, drawing on the instruments of the Common Commercial Policy it may conclude various trade agreements with external states; it may conclude International agreements in areas specified by the Treaty. Article 217 of the Treaty allows the Union to enter into special, closer, preferential forms of cooperation with certain third countries, going beyond trade relations to some extent, and to conclude association agreements.

Association agreements and preferential arrangements

On the basis of Article 217 of the TFEU, association means that mutual rights and obligations are set up between the EU and a country or group of countries,

common actions may be realised, and common procedures applied. Usually, through association, the partner countries gain special conditions from the EU on market access and free trade and, in certain cases, the prospect of future membership. In addition, these agreements are completed by various types of economic and thematic cooperation, special political agreements, as well as the provision of financial aid on the part of the EU.

5. Cooperation with members of EFTA and the European Economic Area

The EU (then the EEC) entered into a free trade system with the members of EFTA one by one in the seventies. Due to the strong trade relations and the similar level of development between the then EEC and the EFTA countries, fostering closer cooperation had long been on the agenda. In the eighties, the objective of a European Economic Area (EEA) was defined, and this was realised in 1994. The objective of this was to develop internal market relations between the then EC Member States and the participating EFTA countries (currently Norway, Iceland and Liechtenstein) without making EC membership a further aim (although the former EFTA countries of Finland, Sweden, and Austria did end up as EC members on 1 January 1995).

6. Europe agreements

Europe Agreements concluded with countries of Central and Eastern Europe
Between 1991 and 1996, the then EC concluded association agreements with 10 former socialist countries of Central and Eastern Europe. The agreements had as their fundamental aim the creation of equal (not unilateral) free trade for industrial products. However, the implementation of this aim was asymmetrical, i.e. the EC removed its protective measures earlier. The agreements did not specify the extent of loans and aid to be provided by the

EC, relying on the discretion of the Community, but they did make mention of and confirmed earlier agreements and commitments thereto (e.g. PHARE).

In the Agreements, the CEECs indicated that their objective was to become full EU members, although the Community made no concrete commitment in this regard in the Agreement provisions.

However, this type of agreement already included the possibility of accession at the time when it was signed, especially as it applied to a wide range of cooperation in political, financial, cultural fields as well as to the approximation of legislation.

EXERCISES

Questions for study and review

- What does a common commercial policy mean?
- What is the role of the Commission when it comes to EU external trade policy?
- If an outside country, say, Japan, has a trade dispute with, say, France, can the two settle the matter between themselves?
- Which countries are the EU's most important trading partners in goods and services trade?

CHAPTER 10 - EU budget

Learning Outcomes

When finishing this chapter, you should be able to understand:

- ✓ The main items of expenditure from the EU budget and how these have changed over the years
- ✓ The basic principles of the EU budget
- ✓ How the financing of the budget has changed over time
- ✓ Why and when financial perspectives and multiannual financial forecasts were introduced The main features of the 2007-13 financial perspective
- ✓ The debate on the future of the EU budget

INTRODUCTION

The changing nature of the EU with its widening and deepening processes has been reflected in the evolution of its budget. Budgetary considerations have played an important role in much of the history of the EU, and the budgetary procedure is the outcome of many disputes and finely balanced compromises.

1. The main features of the EU budget

The Administration of the Union has a parliament, a civil service and a judiciary that is distinct from those of the member states. These arms administer the application of treaties, laws and agreements between the member states and their expenditure on common policies throughout the Union.

2. Budget principles

The EU budgetary principles are the following: unity & accuracy; annuality; equilibrium; unit of account (€); universality; specification; sound financial management; transparency.

Unity & accuracy: All revenue and expenditure should be incorporated in a single budget document. Only the revenue and expenditure included in the budget are authorized. The principle of accuracy means that the EU will not spend more than is necessary.

Annuity: The budgetary principle according to which expenditure and revenue is programmed and authorized for one year, starting on 1 January and ending on 31 December.

Equilibrium: The principle of equilibrium means that budget revenue must equal budget expenditure. The EU, unlike its Member States, is not allowed to borrow to cover its expenditure.

Unit of account: The budget is drawn up and implemented in euros and the accounts shall be presented in euros.

Universality: In line with this principle, budget revenue may not be assigned to specific items of expenditure (non-assignment rule) and revenue and expenditure may not be set off against each other (gross budget rule). Consequently, revenue is pooled and used without distinction to finance all expenditure.

Specification: The principle of specification means that each appropriation must have a given purpose and be assigned to a specific objective in order to prevent any confusion between appropriations, at both the authorization and implementation stages. The principle of specification also applies to revenue and requires the various sources of revenue paid into the budget to be clearly identified.

Sound financial management: The principle of sound financial management stipulates that the budget appropriations must be used according to the principles of economy, efficiency and effectiveness.

The principle of transparency: The budget is established in compliance with the principle of transparency, ensuring sound information on implementation of the budget and the accounts.

3. What does the EU Budget look like?

The EU budget is published in two volumes in all official languages of the Union. Volume I provides a detailed statement of EU budget revenue as well as the revenue and expenditure of each of the institutions, apart from the European Commission, in sections ordered according to their order in the Treaties. It covers the European Parliament (Section I), the Council (Section II), the Court of Justice (Section IV), the European Court of Auditors (Section V), the European Economic and Social Committee (Section VI), the Committee of the Regions (Section VII), the European Ombudsman (Section VIII) and European Data-protection Supervisor (Section IX). Volume II covers all Commission revenue and expenditure (Section III) linked to EU policies. Appropriations entered in sections other than Section III are of administrative nature.

Structured according to policy areas

The appropriations for EU policies, the operational budget, are contained in Volume II (Section III – European Commission). Since 2004, this section is activity based (ABB short for “activity-based budgeting”); the budget is divided into some 30 policy areas, each of which described within a title.

Multiannual Financial Frameworks

The multiannual financial framework lays down maximum amounts (“ceilings”) by broad category of expenditure (“headings”) for a clearly determined period of time.

The Treaty of Lisbon makes the multiannual financial framework compulsory. Art. 312 of the Treaty on the Functioning of the European Union states that the Council shall adopt a regulation laying down the multiannual financial framework (with a duration of at least five years), after obtaining the consent of the European Parliament, given by a majority of its members.

The present financial framework (2007-2013) comprises six headings:

1. Sustainable growth
 - 1a. Competitiveness for growth and employment
 - 1b. Cohesion for growth and employment
2. Preservation and management of natural resources
3. Citizenship, freedom, security and justice
 - 3a. Freedom, security and justice
 - 3b. Citizenship
4. The European Union as a global player
5. Administration
6. Compensations (related to the latest enlargement of the Union)

Multiannual Financial Framework 2014-2020

European summit of 7-8 February 2013 ended with a deal on the EU financial plan for 2014-2020. The ceiling for overall payments has been set at EUR 908.40 billion, compared to EUR 942.78 billion in the MFF 2007-2013.

EU leaders agreed on a substantial increase of the financial means for future geared expenditure such as research, innovation and education, in order to promote growth and create jobs. In addition, they committed to increase the

funding for the EU research programme "Horizon 2020" and the "Erasmus for all" programme in real terms. Heads of state and government also agreed to create a "Connecting Europe" Facility, a new instrument to bridge the missing links in Europe's energy, transport and digital infrastructure, for which EUR 29.30 billion have been earmarked - an increase of more than 50% compared to the current MFF.

Showing solidarity

As a concrete example of the European Council's solidarity, the poorer Member States will receive a larger share of the total Cohesion policy envelope than in the current MFF.

Ensuring sustainability

It also agreed on some guiding elements for the next reform of the Common Agricultural Policy (CAP) which should become greener and fairer:

- 30% of direct payments will be made conditional on "greening" to ensure that the CAP helps the EU to deliver on its environmental and climate action objectives.
- Direct aids will be more equitably distributed between Member States. All EU countries whose level of direct payments is currently below 90% of the EU average will see one third of this gap closed by 2020.

Providing added value

Concerning "security and citizenship", the European Council agreed on an expenditure limit of EUR 15.69 billion. The measures include in particular actions in relation to asylum and migration and initiatives in the areas of external borders and internal security.

As regards "global Europe", the European Council underpinned its determination to develop the role of the EU as an active player on the

international scene. The expenditure ceiling under this heading has been set at EUR 58.70 billion.

Under "administration", the agreement reflects Member States' efforts to consolidate their public finances. The expenditure limit has been set at EUR 61.63 billion, which corresponds to a EUR 2.5 billion cut compared to a status quo scenario. Furthermore, EU leaders agreed on an expenditure limit of EUR 27 million for "compensation" with the aim of ensuring that Croatia will not be a net contributor in the first years following its accession to the EU.

Ensuring flexibility

In addition, the European Council agreed to extend the following five existing instruments outside the MFF:

- The European Development Fund (EDF): It finances development assistance for African, Caribbean and Pacific countries (ACP countries), overseas countries and territories. The European Council agreed to allocate EUR 26.98 billion to the EDF for 2014-2020.

Four instruments which are mobilised only in case of need. These are:

- The Emergency Aid Reserve: It is used to finance humanitarian, civilian crisis management and protection operations in non-EU states in unforeseen events. EUR 1.96 billion have been agreed for the next MFF.
- The Flexibility Instrument: It is mobilised for clearly identified needs that cannot be financed within the limits of the MFF ceilings. Its maximum amount has been set at EUR 3.297 billion.
- The Solidarity Fund: It is designed to provide rapid financial assistance in the event of a major disaster occurring in a Member State or candidate State. The amount to be budgeted to the fund in the next MFF may not exceed EUR 3.5 billion.

- The European Globalisation Adjustment Fund: It is intended to help workers made redundant as a result of major structural changes in world trade patterns in their efforts to find new employment. It will be possible to mobilise up to an amount of EUR 1.05 billion in the new MFF.

Opening new perspectives

On the revenue side, the European Council opened the way for a simpler and more transparent own resources system. More concretely, work will continue to replace the current VAT based own resource by a new one, which should be made as simple and transparent as possible, and which should provide a stronger link with the EU VAT policy and the actual VAT receipts.²⁸

4. Financing

The basic rules on the system of own resources are laid down in a Council Decision adopted by unanimity in the Council and ratified by all Member States. The overall amount of own resources needed to finance the budget is determined by total expenditure less other revenue. The total amount of own resources cannot exceed 1.24 % of the gross national income (GNI) of the EU.

²⁸ **Correcting budgetary imbalances**

As regards corrections, the UK rebate and the rebates on the UK rebate are maintained. A reduced VAT call rate of 0.15% (rather than 0.30%) will apply, for 2014-2020 only, to Germany, the Netherlands and Sweden. Denmark, the Netherlands and Sweden will benefit from reductions of their national GNI payments for the period 2014-2020 of EUR 130 million, EUR 695 million and EUR 185 million respectively.

The Austrian annual GNI contribution will be reduced by EUR 30 million in 2014, EUR 20 million in 2015 and EUR 10 million in 2016. Last but not least, the member states will be allowed to retain only 20% (instead of 25%) of the traditional own resources to cover their collection costs.

Own resources can be divided into the following categories :

- Traditional own resources (TOR) consist of customs duties and sugar levies. These own resources are levied on economic operators and collected by Member States on behalf of the EU. Customs duties are levied on imports of products coming from third countries, at rates based on the Common Customs Tariff. Sugar levies are paid by sugar producers to finance the export refunds for sugar. These levies only amount to around 1 % of total TOR.
- TOR account for around 12 % of total EU revenue. (2016)
- The own resource based on value added tax (VAT) is levied on Member States' VAT bases, which are harmonised for this purpose in accordance with Community rules. The same percentage (0.30%) is levied on the harmonised base of each Member State.).
- The VAT-based resource accounts for around 12 % of total EU revenue (2016).
- The resource based on gross national income (GNI) is used to balance budget revenue and expenditure, i.e. to finance the part of the budget not covered by any other sources of revenue. The same percentage rate is levied on each Member States' GNI, which is established in accordance with Community rules The GNI-based resource accounts for around 72 % of total EU revenue. (2016).

The UK correction, UK rebate

A specific mechanism for correcting the budgetary imbalance of the United Kingdom (the UK correction or UK rebate) is also part of the own resources

system. The current UK correction mechanism was introduced in 1985 to correct the imbalance between the United Kingdom's share in payments to the Community budget and its share in Community expenditure allocated to the Member States. This mechanism has been modified on several occasions to compensate for changes in the system of EU budget financing, but the basic principles remain the same.

This imbalance is calculated as the difference between the percentage share of the UK in EU expenditure paid in the Member States ("allocated expenditure") and the UK share in total VAT-based and GNI-based own resources payments.. The cost of the correction is borne by the other 28 Member States. The distribution of the financing is first calculated on the basis of each country's share in total EU GNI. The financing share of Germany, the Netherlands, Austria and Sweden is, however, restricted to one fourth of its normal value. This cost is redistributed across the remaining 23 Member States.

5. Responsibility for managing the budget

The ultimate responsibility for the implementation of the budget lies with the European Commission. In practice, the lion's share of the EU funds (some 76 %) is spent under what is known as "shared management". Under these arrangements, it is the authorities in the Member States, rather than the Commission that manage the expenditure. The Commission must recover amounts unduly paid, whether by error, irregularity or deliberate fraud. The Member States are equally responsible for protecting the EU's financial interests. To this end, they work in cooperation with the Commission and with OLAF — the European Anti-Fraud Office — which carries out investigations into potential cases of fraud and helps 'fraud-proof' EU legislation.

Activity-based budgeting

For greater transparency, i.e. what policies are pursued, how much money is spent on each of them, and how many people work on them, the EU budget is separated into thirty-one policy areas. Each of these policy areas is broken down to show the different activities financed under the policy and their total cost in terms of both financial and human resources .(for example, the protection of forests activity is financed under the environment policy heading). This way of organising the budget is called activity-based budgeting.

Rules governing expenditure

The main rules governing the actual spending of EU funds are contained in the Financial Regulation. A second set of rules, Implementing Rules, explains in detail how the Financial Regulation is to be applied.

The Commission has bank accounts with Member State treasuries, central banks and commercial banks and is a participant in SWIFT (the Society for Worldwide Interbank Financial Telecommunication). All payment instructions and other related messages are sent electronically in encrypted form and with a coded authentication key.

6. Budgetary Control

Budgetary control is performed in each EU institution and at Member State level. Important control work is carried out by the Court of Auditors and by the Parliament to verify the legality, accuracy and financial soundness of budget operations in the broad sense.

Control at national level

Initial control of income to the EU budget and expenditure is exercised partly by national authorities. Operational expenditure under the European Agricultural Guidance and Guarantee Fund (EAGGF) and the Structural Funds is also controlled in the first instance by the authorities of the Member States, which often have to bear part of the cost of such interventions.

6.1 Control at Community level

1. Internal

In each institution, control is exercised by authorising officers and accountants and then by the institution's internal auditor.

2. External: by the Court of Auditors

External control is carried out by the European Court of Auditors (ECA), which submits each year to the budgetary authority detailed reports in accordance with Article 248 of the Treaty. The ECA also reports on lending and borrowing operations and the European Development Fund.

3. Control at political level: by the European Parliament:

Within the Parliament, the Committee on Budgetary Control is in charge of:

the control of the implementation of the budget of the Union;

the closure, presenting and auditing of the accounts and balance sheets of the Union, its institutions and any bodies financed by it;

monitoring the cost-effectiveness of the various forms of Community financing in the implementation of the Union's policies;

consideration of fraud and irregularities in the implementation of the budget of the Union, measures aiming at preventing and prosecuting such cases, and the protection of the Union's financial interests in general.

It also prepares the decisions on discharge.

The discharge procedure

Once a year, Parliament, on the Council's recommendation, gives discharge to the Commission on the implementation of the budget for the year after having examined the ECA's annual report and the replies from the Commission and the other institutions to its questions (Article 276 of the EC Treaty). Similarly, the EP gives discharge annually to the other institutions as well as to the agencies. The EP gives discharge to the Commission separately for the

implementation of the European Development Funds as these are not yet integrated into the general budget.

4. Anti-fraud measures: by OLAF

The Office for the Fight against Fraud (known as OLAF) was established in 1999 (Commission Decision 1999/352). It is competent to carry out investigations independent of the Commission. At the instigation of the EP it has been reinforced. Its role is to protect the Union's financial interests, with a responsibility for fighting fraud involving EU funds in all institutions and for coordinating the bodies responsible in the Member States.

Article 280 of the EC Treaty concerns fraud and the EU's financial interests; it requires close and regular cooperation between Member States and the Commission, as well as opening the way to specific Council measures to afford equivalent and effective protection in the Member States for the EU's financial interests.

Over time, some countries have emerged as net beneficiaries of and others as net losers 'from the EU budget. The share of agriculture (now included under natural resources) in spending from the EU "- budget has been falling, while the share of economic and social cohesion (formerly called structural operations) in expenditure has been increasing steadily. Since 2007 the main items of expenditure from the EU budget are: competitiveness and cohesion for sustainable growth; preservation and management of natural resources; citizenship, freedom, security and justice; the EU as a global player, and administration.

Throughout its history the budget of the EU has been guided by certain basic principles: unity and universality, equilibrium, annuality, specification and a common unit of account.

Fiscal federalism deals with the criteria for deciding the appropriate level of government (European, national, regional or local) for decisions with regard to expenditure and revenue.

The Treaty of Rome envisaged a transition period until 1970 during which financing of the Community was to consist essentially of contributions from the member states to be followed by the introduction of a system of own resources. During the 1980s, excess spending on the CAP, widening membership and extension into new policy areas meant that inadequate budgetary resources continually plagued the Community.

Since 1984 Britain has had a budget refund or 'correction', but this has been increasing contested by other member states.

The own resources consist of: tariffs on manufactured imports from third countries; agricultural tariffs and levies; a percentage of VAT and the fourth resource based on GNI.

EXERCISES

Questions for study and review

- What are the main principles underlying the EU budget, and how far have they been respected in practice?
- Describe how the concept of fiscal federalism could be applied in the EU context.
- Explain why the EU budget ran into difficulties on both the expenditure and the revenue sides.
- Indicate the main changes in the EU budget over the years.
- What changes were made in the EU budget as a result of enlargement?
- What are the central issues in the debate about the future of the EU budget and the financial perspective after 2013?
-

CHAPTER 11 - Common Agricultural policy

Learning Outcomes

When finishing this chapter, you should be able to understand:

- ✓ The reasons for public intervention in agriculture
- ✓ The objectives of the Common Agricultural Policy (CAP) set out in the Treaty of Rome and how they changed over time
- ✓ The three principles on which the CAP is based
- ✓ The main mechanisms used by the CAP and their changes through the years
- ✓ How the system of price support works
- ✓ | The pressures for reform of the CAP
- ✓ The negative consequences of the price support policy
- ✓ The absence of an effective policy to improve farm structures for so many years
- ✓ The various attempts at CAP reform
- ✓ The outlook for the CAP after 2013
- ✓ The reasons for public intervention in agriculture

INTRODUCTION

1. Agriculture: towards the creation of the Common Agricultural Policy

Agriculture has always been one of the sectors most subject to state intervention, and this was also the case for the six founding members of the European Community. There are various explanations for the scale of public intervention in agriculture: the dependence of agricultural production on

biological cycles, climate and natural phenomena (including epidemics) provide justification for government measures to stabilize farm prices and incomes.

For many years the Common Agricultural Policy (CAP) was considered the cornerstone of the integration process. In the immediate postwar period there were several strong reasons for creating a common market for agricultural products.²⁹ At the time, agriculture was extremely important economically, socially and politically. In 1958, agriculture accounted for 20 per cent of the labour force in the original EC countries and generally incomes were lower than in non agricultural sectors.

The farm policies in the original EC countries were very different and had to be harmonized; otherwise, differences in agricultural price levels and support measures would cause distortions in intra EC trade.

The introduction of a common market for agriculture would encourage competition and specialization according to the principle of comparative advantage, thereby increasing the productivity of the sector.

The French presented a proposal, known as the Charpentier Plan, to create a 'green pool' in Europe similar to the 'black pool' of the ECSC. This would entail common agricultural prices; the elimination of trade barriers between the member states; preference for the producers of the member states, that is, they

²⁹ The initial deal is frequently said to be an exchange of interests between France who was seeking markets for her agricultural exports, and Germany who was anxious to reduce tariffs in order to ensure outlets for her industrial exports. Having decided on an industrial common market, France wanted an outlet for its agricultural surpluses. Germany had a tradition of heavy protection and substantial income support for the agricultural sector. Italy and the Netherlands also considered that a common agricultural market would provide opportunities for developing their typical forms of production (Mediterranean, and dairy products and vegetables respectively).

could sell at lower prices on the domestic market than producers from third countries; and a High Authority with supranational powers.

Although the UK and Denmark were strongly opposed to the supranational element of the Charpentier Plan, the Special Committee of the Council of Europe accepted the proposals, and it was agreed to prepare a draft treaty along the lines of the plan.

Articles 38 to 47 of the Treaty of Rome deal with agriculture . Article 39 is probably one of the most frequently quoted articles of the Treaty and sets out the objectives of the CAP:

- a) to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilization of factors of production, in particular, labour;
- b) thus to ensure a fair standard of living for the agricultural community, in particular by increasing individual earnings of persons engaged in agriculture;
- c) to stabilize markets;
- d) to ensure availability of supplies;
- e) to ensure that supplies reach consumers at reasonable prices.

2. The agreement on the CAP mechanisms

The three fundamental principles of the CAP:

1 Unity of markets. Trade would be progressively liberalized between the member states and common prices would be introduced for the main agricultural products throughout the Community.

2 Community preference. Barriers on trade between member states were to be removed, but common levies on imports of agricultural products from the rest of the world meant that EC producers would be at an advantage visàvis

those from third countries in selling their agricultural produce on Community markets.

3 Financial solidarity. A European Agricultural Guidance and Guarantee Fund (EAGGF, or FEOGA after its French acronym) would finance agricultural policy measures. The Guidance section would cover expenditure on structural measures, while the Guarantee section of the EAGGF would be responsible for market intervention and export refunds.

Each year intervention prices, or minimum guaranteed prices, are also agreed. Intervention agencies have to stand ready to buy up the product to ensure that prices do not fall below this floor level.

Variable import levies were applied on imports from the rest of the world in order to bring their prices up to the threshold price. If prices on world markets fell while Community prices remained unchanged, the variable levy would simply increase, and this was regarded by the USA, in particular, as a particularly insidious form of protection. In 1995, as a result of the 1994 General Agreement on Tariffs and Trade (GATT) Uruguay Round Agreement on Agriculture, variable import levies were replaced with tariffs on imports of agricultural products from the rest of the world.

3. The 1964 agreement on common price levels

The 1962 decision on the mechanisms of the CAP failed to give any indication of what the common levels of prices would be.

The effects of EU price support policy

Again the difficulties in reaching agreement reflected different national positions. At the time, agricultural prices were relatively high in Germany, Luxembourg and Italy, and lower in France, Netherlands and Belgium.

The Agricultural Committee of the European Parliament (composed mainly of farmers) also called for an increase in prices to the level of those in the main consumer country, Germany (Tracy, 1989).

The effects of EU price support policy

Published in December 1968 as Commission document COM(68) 1000, the plan set out proposals to resolve the problems of surpluses and inadequate farm incomes over the following decade, so was also known as 'Agriculture 1980'.

A central concept of the plan was the 'modern farm enterprise' that could ensure farm incomes and working conditions, comparable with those in other sectors.

The ongoing need for reform of the CAP

During the 1970s and 1980s, the CAP seemed increasingly to be transformed from the cornerstone to the stumbling block of the Community. High and stable prices encouraged production leading to surpluses. Although the successive reforms of the CAP described below attempted to address its various shortcomings, then as now the main criticisms of the CAP were:

- the cost to the EU budget;
- the burden on consumers;
- tensions with third countries, and, in particular, agricultural exporters;
- disparities in the level of support with a bias in favour of larger farmers and those in Northern Europe; and
- adverse consequences for the environment.

The high and rising level of agricultural prices posed an excessive burden on the EC budget.

The Green Paper of 1985, published by the European Commission, marks the beginning of a change in priorities of the CAP. The Green Paper lists the priorities of the CAP as: reducing surpluses, promoting the quality and variety of agricultural production, improving the incomes of small family farms,

supporting agriculture in areas where it is necessary for rural development, promoting awareness by farmers of environmental questions, and assisting the processing industry.

4. The 1992 MacSharry Reform

The stabilizer package failed to resolve the problem of surpluses of the main CAP products, the EC became increasingly aware that CAP reform was necessary to avoid collapse of the GATT Uruguay Round negotiations. Reform of the CAP was essential to permit eastward extension of the CAP with enlargement. The aim was to reinforce the new priorities set out in the 1985 Green Paper, including rural development, environmental objectives and fairer distribution of support for farm incomes.

A central element of the reform was cuts in administered prices for certain key products, compensated by the introduction of direct payments to farmers

5. The 1999 Berlin Agreement on Agenda 2000

The MacSharry Reform represents a radical break with the past. From the point of view of economic efficiency, direct payments are preferable to price support and have the advantage of being more transparent. The reform recognizes the role of farmers in rural development and protection of the environment, but the funds allocated to these objectives were limited.

The MacSharry Reform was instrumental in permitting a successful outcome to the GATT Uruguay Round. One of the objectives of the MacSharry Reform was to correct the inequity in the distribution of CAP transfers. The European model of agriculture requires social, historical and environmental considerations to be taken into account, and not just economic factors.

The CAP and the enlargements of 2004 and 2007

Agriculture frequently threatened to prove a stumbling block in the enlargement process.

With the 2004 enlargement the numbers employed in agriculture in the EU increased from about 7 million to 11 million. At the same time the share of agriculture in employment rose from 4 per cent to 5.5 per cent, becoming 7.5 per cent with Bulgaria and Romania in 2007.

The new member states had the complex task of adapting to EU policies and standards (food and agricultural measures account for roughly half the *acquis communautaire*), while the EU wanted to ensure that enlargement did not result in excessive transfers from the EU budget.

There was considerable debate about extending direct income payments to farmers in countries joining the EU. At least initially, such payments were introduced as compensation for the reductions in price support. At first the Commission argued that farmers in applicant countries would not generally experience price cuts and so should not benefit from direct payments.

According to the Commission, prices for most agricultural products were below EU levels it was argued that farmers in the Central and Eastern European countries (CEECs) would receive the benefit of higher prices when they joined the EU, so compensation in the form of direct payments was superfluous.

In March 2002 the Commission published an extensive study of the impact of enlargement on agricultural markets and incomes, confirming the view that immediate payment of 100 per cent direct payments on accession of the CEECs would lead to social distortions and inequalities. The working assumption of the analysis was accession of eight CEEC candidates from 2007 (Bulgaria and Romania were assumed to join later). According to the Commission report, even without direct payments the CEEC farmers would benefit on average from a 30 per cent increase in income as a result of EU market support.

At the Copenhagen European Council of December 2002 it was agreed that direct aids for the new member states would be phased in gradually over ten years.

In order to meet problems of administrative costs and fraud, the new member states could opt for a simplified single payments scheme for three years, renewable for up to two more years. A further sensitive issue was whether the CEECs would be allowed a derogation on land ownership. Land prices were much lower in the CEECs, and though a general derogation of seven years, with the option of extending the derogation for a further three years, was eventually

The Mid term Review or Fischler Reform

The Berlin Agreement envisaged a Midterm Review of progress in implementing the 1999 reform and the final compromise reached in 2003 is also called the Fischler Reform as the agreement owes much to the personal efforts of the then Commissioner for Agriculture. Some member states (and notably France under President Chirac) had insisted that the Midterm Review should be limited to mere revision of policies and should not introduce substantial changes, but the Commission rightly called the agreement a 'fundamental reform'

The CAP Health Check

In November 2008 the Council reached agreement on the CAP Health Check, which in effect completed the Fischler Reform package. A central aim was to render the Single Farm Payment scheme more effective and simpler by moving from the historical system (which becomes harder to defend over time) by giving member states the possibility of shifting to the flatter rate regional system. Virtually all direct payments were to be decoupled as the scope for member states to choose partial decoupling was reduced. The simplified single area payment scheme (which applies on the whole of the agricultural area) was

to be replaced by the SFP system by 2013 in the CEECs that joined the EU in 2004, and by 2019 for Bulgaria and Romania.

The criticisms of the traditional CAP are that it weighed excessively on the Community budget, caused tensions with other agricultural exporters, imposed a heavy burden on consumers, failed to improve the relative income situation of small farmers and encouraged intensive farming methods.

The reform also aimed at providing a 'soft landing' for the abolition of milk quotas in 2015 by, for instance, increasing the size of quotas and using rural development measures if necessary for areas heavily dependent on milk production. The price support for commodities provided by intervention was to be limited. The increased modulation under the Health Check was aimed at addressing the bias of direct payments in favour of larger farmers. As in 2003, the Commission proposed either a cap or a mechanism to reduce direct payments to larger farms, but the Council blocked this measure. From 2005 member states were obliged to publish data on beneficiaries from CAP spending.

The CAP post 2013

The Commission launched a massive public consultation on the topic in April 2010, contacting the general public, stakeholders, think tanks, research institutes and so on. The aim of the consultation was to address four main questions: why we need a CAP; what citizens expect from agriculture; why reform the CAP; and what tools are needed for the CAP of tomorrow.

With regard to why we need a CAP, most respondents were in favour of having an agricultural policy at the EU level, and many, though not all, felt that recent reforms had moved the CAP in the right direction. According to the 2010 consultation, many felt that having an agricultural policy at the EU level offers

the advantages of a single market, and the hope of guaranteeing a level playing field.

However, the consultation confirms the widespread feeling that further CAP reform is necessary to : cope with increased instability and volatility of food and agricultural prices; increase the equity of direct payments; simplify administrative procedures; concentrate more on the provision of public goods; respond more effectively to climate change; take into account the higher expectations of consumers; increase the competitiveness of EU agriculture; and ensure better coordination with other policies for rural areas.

With regard to tools for the CAP of tomorrow, a wide spectrum of views emerged from the consultation. These ranged between two poles: one in favour of maintaining the current direction of reform of the CAP with very little change, and the other wanting to refocus the CAP in order to link production and the compensation of farmers more closely to the provision of public goods associated with the second pillar of the CAP.

The activities of farm lobbies also help to explain the persistence and scale of state support for the farm sector.

Article 39 of the Treaty of Rome set out the initial objectives of the CAP.

In 1962 there was agreement on the three fundamental principles of the CAP: unity of markets, Community preference and financial solidarity. There was also agreement on the price support mechanisms.

Until 1995 variable import levies were applied on imports from the rest of the world, but as a result of the 1994 GATT Uruguay Round most variable import levies were replaced with tariffs.

Export refunds (also called restitutions) cover the gap between domestic EU prices and prices on world markets.

The failure of the 1968 Mansholt Plan meant that for many years structural measures played a very limited role in the EC.

During the 1970s and 1980s, high and stable EC agricultural prices encouraged production leading to surpluses. impact on the environment.

- Early attempts at CAP reform included coresponsibility levies, milk quotas and stabilizers.

The 1988 reform package introduced accompanying measures, which included incentives for early retirement, more extensive production methods, reforestation and setaside.

- The 1992 MacSharry Reform and the 1999 Berlin Agreement on Agenda 2000 cut prices for certain key products and introduced direct payments for farmers. The MacSharry Reform also introduced measures for early retirement, reforestation and protection of the environment.

With the Berlin Agreement rural development policy became the second pillar of the CAP.

EXERCISES

Question and review:

- Why has the CAP always played such a central role in the EC/EU?
- What are the main defects of a price support policy?
- Why did structural policy play such a minor role in the EC for so long?
- What were the objectives of the CAP set out in the Treaty of Rome, and to what extent have they been realized? How have the objectives of the CAP changed over time?
- Why has the CAP proved so resistant to reform over the years?
- Describe the early attempts to reform the CAP.
- The 1992, 1999, 2003 and 2008 reforms changed the mechanisms used by the CAP. Describe the fundamental aspects of these reforms.
- How do you envisage the CAP post2013?

CHAPTER 12 - Common Policies

Learning Outcomes

When finishing this chapter, you should be able to understand:



INTRODUCTION

1. EU competition policy

- Competition regulators (EU commission or national authorities) aim to ensure that competition is not distorted by dominant players or illegal collusion, through e.g. mergers or price agreements.
- Regulations on state aid which is financial support from governments to firms through e.g. subsidies or tax rebates (balance between e.g. securing jobs in a local area and subsidizing an unfair advantage).
- Subsidy competition is the competition between governments trying to attract investors by offering subsidies; commission may demand repayment; exemption: support for R&D, renewable energy, energy efficiency, broadband networks, and development of designated disadvantages regions.

2. EU transport policy

As well as being a key sector of the economy, transport is a major contributor to the economy and sustains over 11 million jobs in Europe.

The European Commission aims to develop and promote transport policies that are efficient, safe, secure and sustainable, to create the conditions for a competitive industry that generates jobs and prosperity.

Major challenges for European transport

EU policy seeks to help our transport systems meet the major challenges facing them:

- congestion affects both road and air traffic. It costs Europe around 1% of annual GDP – and freight and passenger transport alike are set to grow.
- oil dependency – despite improvements in energy efficiency, transport still depends on oil for 96% of its energy needs. Oil will become scarcer in future, increasingly sourced from unstable parts of the world. By 2050, the price is projected to more than double compared to 2005.
- greenhouse gas emissions – by 2050, the EU must cut transport emissions by 60% compared with 1990 levels, if we are to limit global warming to an increase of just 2°C.
- infrastructure quality is uneven across the EU.
- competition – the EU's transport sector faces growing competition from fast-developing transport markets in other regions.

2. Energy Policy

Although the European Union has legislated in the area of energy policy for many years, the concept of introducing a mandatory and comprehensive European Union energy policy was only approved at the meeting of the informal European Council on 27 October 2005 at Hampton Court.

The EU Treaty of Lisbon of 2007 legally includes solidarity in matters of energy supply and changes to the energy policy within the EU. Prior to the Treaty of Lisbon, EU energy legislation has been based on the EU authority in the area of the common market and environment. However, in practice many policy competencies in relation to energy remain at national member state

level, and progress in policy at European level requires voluntary cooperation by member states.

In 2007, the EU was importing 82% of its oil and 57% of its gas, which then made it the world's leading importer of these fuels. Only 3% of the uranium used in European nuclear reactors was mined in Europe. Russia, Canada, Australia, Niger and Kazakhstan were the five largest suppliers of nuclear materials to the EU, supplying more than 75% of the total needs in 2009. In 2015, the EU imports 53% of the energy it consumes.

CHAPTER 13 - EU enlargement

Learning Outcomes

When finishing this chapter, you should be able to understand:

- ✓ Where we are in the EU enlargement process
- ✓ What measures were introduced by Western countries to assist the transition process in Central and Eastern European countries (CEECs) and with what success
- ✓ The differences between aid for transition and the Marshall Plan
- ✓ The difficulties encountered in trying to apply the Copenhagen criteria
- ✓ The main steps involved in the preaccession strategy
- ✓ EU policy towards SouthEastern Europe
- ✓ EU relations with the candidate countries: Croatia, the Former Yugoslav Republic of Macedonia, Iceland and Turkey
- ✓ EU relations with the precandidate countries How much specialization of industry there is in the EU

INTRODUCTION

The ongoing EU enlargement process raises fundamental questions about the future of the Union. Will an expanded membership require fundamental changes in EU economic and social cohesion policy?

1. First enlargement

EFTA countries feared that with the Single Market Programme their industries would lose relative competitiveness. In 1990 the EFTA countries began formal negotiations of the creation of European Economic Area (EEA). This would enable the EFTA countries to participate in a unified market but imposed strong limits on their ability to participate in decision making. In the event, three of the EFTA countries (Austria, Sweden and Finland) opted for EU accession.

In a referendum, Norway again decided against EU membership, while the Swiss voted even against participation in the EEA. When the EEA came into operation in January 1994, the EFTA members were limited to Norway, Iceland and Liechtenstein. Following the collapse of the Eastern bloc in 1989, the smaller Central and East European countries wanted tighter links and eventual membership of the EC. The Community responded first by offering trade and cooperation agreements to these countries, but was slow to offer them an accession strategy.

The EFTA countries began to negotiate the creation of an EEA which would enable them to participate in the Single Market but which limited their ability to participate in decision, making. In the event, three of the EFTA countries (Austria, Sweden and Finland) opted for EU accession in 1995. In a referendum, Norway again decided against EU membership while the Swiss even voted against participation in the EEA.

The 1993 *Copenhagen European Council* set out the conditions that the applicant countries have to fulfil in order to join the EU. Between 1994 and 1996 ten Central and Eastern European countries (CEECs) applied for EU membership. All these countries signed association agreements with the EU and all were participants in the EU preaccession strategy to help prepare them

for membership. The *Madrid European Council* of 1995 stipulated that the candidate country must be able to put EU rules and procedures into place.

In July 1997 the Commission published the document *Agenda 2000*, which analysed the steps needed to prepare both the EU and accession countries for enlargement, and included 'opinions' on the readiness of each of the applicant countries to join the EU. At the December 1997 Luxembourg Summit it was decided to open accession negotiations with Cyprus and five CEECs: the Czech Republic, Estonia, Hungary, Poland, Romania and Slovenia. These negotiations began in 1998.

At the **Helsinki Summit** it was also decided to begin negotiations for accession with six further candidates: Bulgaria, Latvia, Lithuania, Malta, Romania and Slovakia, and to declare Turkey a candidate. Malta's application had lapsed in 1996 but was subsequently resumed in 1998. Negotiations with these six countries began in February 2000. Ten new member states joined the EU in May 2004 in time to participate in the European Parliament elections of 2004, while Bulgaria and Romania joined in 2007. In 2005 the EU decided to begin negotiations for membership with Croatia and Turkey. The negotiations with Turkey are proving lengthy, with little progress being made. In 2005 the Former Yugoslav Republic of Macedonia was declared a candidate country. The main features of the 2004 and 2007 enlargements are described, also because these might provide insights into future enlargements.

In 2004, ten new countries joined the EU, and Bulgaria and Romania joined in 2007. In October 2005 the EU decided to begin negotiations for membership with Croatia and Turkey, but the negotiations with Turkey are proving lengthy. The Former Yugoslav Republic of Macedonia was declared a candidate country in 2005, as were Iceland and Montenegro in 2010.

Potential candidate countries in the Western Balkans, which could eventually include Albania, Bosnia and Herzegovina, Kosovo and Serbia.

The EU is committed to further enlargements, but where should its borders end?

2. Trade and aid arrangements between the EU and CEECS before enlargement

The 'first generation' Trade and Cooperation Agreements

After a long history of stormy relations between the European Community and the Eastern integration bloc, the CMEA (Council for Mutual Economic Assistance), in June 1988 a Joint Declaration of Mutual Recognition was signed. This opened the way for tighter links between the Community and individual CEECs. In September 1988 Hungary signed a Trade and Co-operation Agreement with the Community, and similar 'first generation agreements' with the other CEECs and the USSR soon followed. The agreements related to trade and to commercial and economic cooperation. The first generation agreements were soon overtaken by events, but remain important as a milestone in ECCEEC relations.

Aid measures for the CEECs prior to accession

The question of whether to aid transition was decided in July 1989 when, encouraged by President Bush, the Commission chaired a meeting of the then 24 OECD countries (the G24) to seek ways of facilitating the process of moving towards democracy and marketorientated economies.³⁰ Despite the low levels of EastWest trade at the end of the 1980s, and the difficulties of

³⁰ Also involved in the programme were the EIB (European Investment Bank), the World Bank and the International Monetary Fund (IMF). The main argument advanced in favour of giving aid to the CEECs and former Soviet republics was Western selfinterest.

transition, the CMEA countries represented a potential market of some 450 million consumers.

The term 'PHARE' (Poland and Hungary Assistance for the Restructuring of the Economy) was adopted for the Community's programme, though this soon became something of a misnomer as aid was extended to the other CEECs.³¹

The PHARE programme came into operation from 1990 and was initially demand driven and based on the requests of the recipient countries. The measures included: food aid to Poland, Romania, Bulgaria and the USSR; agricultural assistance; training and human resources; energy and the environment; improved market access; assistance for privatization and restructuring (for small and medium enterprises, the financial system, technical assistance, investment guarantees and so on); and medical aid. In addition, loans were granted for stabilization and to cover balance of payments difficulties, and debt relief was extended to countries such as Poland and Bulgaria.

The European Bank for Reconstruction and Development (EBRD) was established in 1991 to encourage investment in transition countries and reduce financial risks. From 1993 PHARE became more concerned with preparing CEECs for accession. Increasingly, PHARE used the procedures of the Structural Funds in order to familiarize the CEECs so they could use the Structural Funds more efficiently upon accession.³²

³¹ After a heated debate on possible political and economic consequences, assistance was also extended to the Soviet Union and, subsequently, to former Soviet republics through the TACIS programme (Technical Assistance for the Commonwealth of Independent States).

³² The 1999 Berlin Council established the three pre-accession instruments to help prepare the candidate countries for membership:

- PHARE, which had an allocation of €1.56 billion per year, 30 per cent of which was earmarked for institution building, 35 per cent for the regulatory infrastructure required for implementation of the acquis, and 35 per cent for economic and social cohesion.

Regional cooperation was also a condition of EU assistance, and this was a major factor leading to the creation of arrangements such as the Central European Free Trade Area (CEFTA) in 1992.

Given the size and number of postcommunist economies and the cost of transition, it was inevitable that the role played by external financial assistance would be relatively modest. Much aid was in the form of loans, and much consisted of export credits, which also benefit Western firms. With the benefit of trade liberalization, FDI and the prospect of EU membership were probably more important catalysts in encouraging transition.

The 'secondgeneration' Europe Agreements

Between 1991 and 1996 the EU signed secondgeneration 'Europe Agreements' with ten CEECs. The Agreements covered traderelated issues, political dialogue, legal approximation, 'phased introduction' of the four freedoms and cooperation in other areas, including industry, environment, transport and customs (Mayhew, 1998).

As a result of the provisions of the Europe Agreements, a free trade area was in place before enlargement. For the CEECs, joining the EU meant moving from a free trade area to a customs union (by adopting the Common Commercial Policy with its 'hierarchy' of trade preferences) and the Single Market. Benefits include the stimulation of investment, exports and employment, as well as knowledge spillovers, better organization, competition, and improved quality and variety of products. FDI was also

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- ISPA (Instrument for Structural Policies Pre-Accession), which was allocated €1.04 billion per year for assistance for the environment and transport infrastructure.
 - SAPARD (Special Accession Programme for Agriculture and Regional Development), which received an allocation of €0.52 billion per year. Measures included improving quality, applying veterinary and plant controls, setting up producer groups and creating land registers. There was much debate about whether Western assistance to the transition countries could be construed as a new Marshall Plan.

considered to offer opportunities to the EU to increase global competitiveness by exploiting complementarities.

The Copenhagen criteria

In 1993 the Copenhagen European Council agreed that 'accession will take place as soon as the applicant country is able to assume the obligations of membership by satisfying the economic and political conditions required'. The conditions were first drawn up for the CEEC countries, but were subsequently extended to apply to all candidate countries and entail the following:

- The applicant state must have a **functioning market economy** with the capacity to cope with competitive pressures and market forces within the EU.
- The applicant state must have achieved **stability of institutions**, guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities.
- The applicant state must be able to take on the **obligations of membership**, including adherence to the aims of political, and economic and monetary union.

At the Copenhagen Summit it was also stipulated that enlargement is subject to the condition that the EU is able to absorb new members and maintain the momentum of integration. The 1995 Madrid European Council also required the candidate countries to adopt adequate administrative and judicial capacity to put EU rules and procedures into effect. The criteria are generally divided into **political criteria**, **economic criteria**, and ability to take on the *acquis communautaire* and to establish the administrative and judicial capacity to ensure its effective implementation.

The accession criteria are presumably intended to provide some kind of objective basis for selecting countries ready to join the EU, as well as indicating to the applicant countries the tasks they are expected to perform.

In deciding whether a country is ready to cope with competitive pressures in an enlarged EU, a detailed analysis of its economy is necessary, together with predictions about which sectors will be able to cope in the internal EU market.

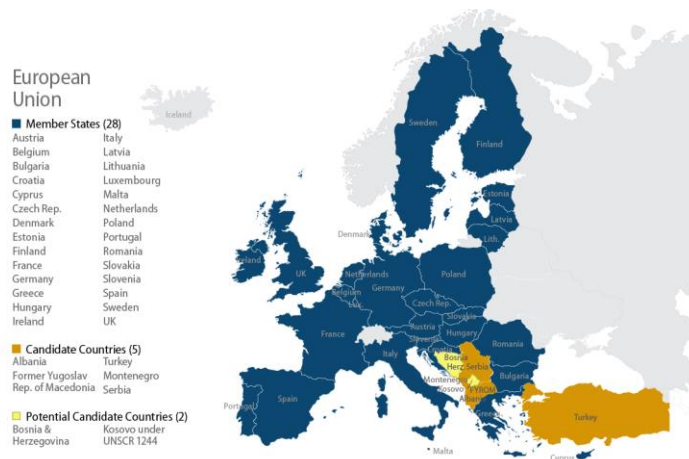
The accession negotiations

A first step in preparing for the accession negotiations is the 'screening' of the acquis. In the case of the CEECs, screening began in March 1998 with all the candidate countries, whether negotiations had been opened or not. The speed and progress of accession negotiations appeared to depend heavily on the ability of a country to adopt the acquis and its administrative and judicial capacity to implement the acquis. In May 2004 ten countries joined the EU.

The PHARE programme that came into operation from 1990 .From 1993 PHARE became increasingly concerned with preparing CEECs for accession.

The Copenhagen criteria for accession set out in 1993 are: a functioning market economy with the capacity to cope with competitive pressures and market forces within the EU; stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities; and ability to take on the obligations of membership, including adherence to the aims of political, and economic and monetary union.

It was also stipulated that enlargement is subject to the condition that the EU is able to absorb new members and maintain the momentum of integration. Turkey started accession negotiations with the EU in October 2005, but the process is proving lengthy.



4. Figure European Union Enlargement Process

Source: Delegation of the European Union to the United States, “On the Path to EU Membership: The EU Enlargement Process,” EU Insight, December 2010; adapted and updated by CRS.³³

³³ Despite the June 2016 public referendum in the United Kingdom in which voters favored leaving the EU, the United Kingdom remains a full member of the bloc until it completes withdrawal negotiations and officially exits the EU (expected to occur in March 2019).

EXERCISES

Questions for study and review

- Discuss the conditionality applied by the EU in its dealings with the CEECs.
- Describe the main features of the Europe Agreements.
- When the CEECs joined the EU, they passed from a free trade area to membership of the Single Market. What does this imply?
- What are the arguments advanced in favour of and against Turkey joining the EU?
- Where do you consider that the boundaries of the EU should end?

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CHAPTER 14 - Brexit

Learning Outcomes

When finishing this chapter, you should be able to understand:

- ✓ What Does the UK Vote to Leave Mean for the EU?

INTRODUCTION

BREXIT is an abbreviation for the term “British exit”, similar to “Grexit” that was used for many years to refer to the possibility of Greece leaving the Eurozone. Brexit refers to the possibility of Britain withdrawing from the European Union . The country will hold a referendum on its EU membership on June 23.

1. What Does the UK Vote to Leave Mean for the EU?

(according to The European Union: Questions and Answers (2018) Kristin Archick Specialist in European Affairs)

In a June 2016 public referendum, UK voters favored leaving the EU by 52% to 48%. The UK government enacted the results of this “Brexit” referendum in March 2017, when it invoked Article 50—the so-called exit clause—of the Treaty on European Union. The EU is currently engaged in complex negotiations with the UK on its pending withdrawal, which is widely expected to occur in March 2019. In December 2017, the EU and the UK reached an agreement in principle covering main aspects of three priority withdrawal issues (the Irish border, the rights of UK and EU citizens, and the financial

settlement), and talks began in March 2018 on the UK's future relationship with the EU.

Despite the December 2017 agreement with the EU, the UK remains largely divided on whether it wants a hard or soft Brexit. As such, many details—including on customs arrangements, trade relations, and ensuring no hard border between Northern Ireland and Ireland—still be fleshed out with the EU. These difficulties have increased speculation of a “no deal” scenario in which the UK “crashes out” of the EU in March 2019 without settled arrangements in place. Other analysts remain confident that the EU and UK will come to an agreement that avoids a no deal situation because such an outcome would serve neither side's political or economic interests.

EU leaders assert that despite Brexit, 'the Union of 27 countries will continue.' However, the UK is the bloc's second-largest economy. As such, the UK's departure could have significant political and economic implications for the EU and for the future of the EU integration project. Some experts argue that Brexit could call into question additional EU enlargement and reduce the EU's role and influence on the world stage, given that the EU will find itself without the UK's diplomatic, military, and economic clout.

In March 2017, the EU-27 leaders met in Rome to commemorate the 60th anniversary of the Treaties of Rome (two treaties agreed in 1957 that are regarded as key founding blocks of the present-day EU) and to conclude a “reflection process” launched in the wake of the UK's Brexit referendum. EU-27 leaders issued the Rome Declaration, in which they reasserted their continued commitment to the EU project. Regardless of a formal decision to move toward a multispeed EU, the union appears to be pursuing greater integration in certain areas, especially defense.

EXERCISES

Question and review:

- What is Brexit? When is Brexit?

Exercises: Choose the right answer!

1. *The European Union is primarily intended to permit:*

- a) Countries to adopt scientific tariffs on imports
- b) An agricultural commodity cartel within the group
- c) The adoption of export tariffs for revenue purposes
- d) Free movement of resources and products among member nations

2. *Which of the following represents the stage where economic integration is most complete?*

- a) Economic union
- b) Customs union
- c) Monetary union
- d) Common market

3. *Which of the following represents the stage where economic integration is least complete?*

- a) Free trade area
- b) Monetary union
- c) Common market
- d) Customs union

4. *Customs union theory reasons that the formation of a customs union will decrease members' real welfare when the:*

- a) Trade diversion effect exceeds the trade creation effect
- b) Trade production effect exceeds the trade consumption effect
- c) Trade consumption effect exceeds the trade production effect
- d) Trade creation effect exceeds the trade diversion effect

5. *Which economic integration scheme is solely intended to abolish trade restrictions among member countries, while setting up common tariffs against nonmembers?*

- a) Economic union
- b) Common market
- c) Free trade area
- d) Customs union

6. *By 1992 the European Union had become a full-fledged:*

- a) Economic union
- b) Monetary union
- c) Common market
- d) Fiscal union

7. *Which device has the European Union used to equalize farm-product import prices with politically determined European Union prices, regardless of shifts in world prices?*

- a) Variable levies
- b) Import quotas
- c) Import subsidies
- d) Domestic content regulations

8. *Which trade instrument has the European Union used to insulate its producers and consumers of agricultural goods from the impact of changing demand and supply conditions in the rest of the world?*

- a) Domestic content regulations
- b) Variable import levies
- c) Voluntary export quotas
- d) Orderly marketing agreements

9. *Assume that the formation of a customs union turns out to include the lowest-cost world producer of the product in question. Which effect could not occur for the participating countries?*

- a) Trade creation-production effect
- b) Trade creation-consumption effect
- c) Trade diversion
- d) Scale economies and competition

10. *Which organization of nations permits free trade among its members in industrial goods, while each member maintains freedom in its trade policies toward non-member countries?*

- a. European Union
- b. Benelux
- c. Council for Mutual Economic Assistance
- d. North American Free Trade Association

11. *Which of the following organizations is considered a regional trading arrangement?*

- a. Organization of Petroleum Exporting Countries

- b. North Atlantic Treaty Organization
- c. Benelux
- d. International Tin Agreement

12. *When products from high-cost suppliers within a customs union replace imports from a low-cost nation that is not a member of the customs union, there exist(s):*

- a. Dynamic welfare losses
- b. Dynamic welfare gains
- c. Trade creation
- d. Trade diversion

13. *Which form of economic integration occurs when participating countries abolish tariffs on trade among themselves, establish a common tariff on imports from nonmembers, and permit free movement of capital and labor within the organization?*

- a. Free trade area
- b. Economic union
- c. Common market
- d. Monetary union

14. *A static welfare effect resulting from the formation of the European Union would be:*

- a. Economies of scale
- b. Trade diversion
- c. Investment incentives
- d. Increased competition

15. *A dynamic welfare gain resulting from the formation of the European Union would be:*

- a. Trade diversion
- b. Trade creation
- c. Diseconomies of scale
- d. Economies of scale

16. *Which organization was founded in 1957 whose objective was to create an economic union among its members?*

- a. General Agreements on Tariffs and Trade
- b. Organization of Economic Cooperation and Development
- c. European Union
- d. Latin American Free Trade Association

17. *The common agriculture policy of the European Union has supported European farmers via:*

- a. Export tariffs and domestic content regulations
- b. Variable levies and voluntary export agreements
- c. Content regulations and export subsidies
- d. Export subsidies and variable levies

18. *Which nation is not a member of the North American Free Trade Association?*

- a. Canada
- b. Greenland
- c. Mexico
- d. United States

19. NAFTA is a:

- a. Monetary union
- b. Free trade area
- c. Common market
- d. Customs union

20. Under the European Union's common agricultural policy, a variable import levy equals the:

- a. Amount by which the EU's support price exceeds the world price
- b. Amount by which the world price exceeds the EU's support price
- c. Support price of the EU
- d. World price

21. Members of the European Union find that "trade creation" is fostered when their economies are:

- a. Highly competitive
- b. Highly noncompetitive
- c. Small in economic importance
- d. Geographically distant

22. The European Union has achieved all of the following except:

- a. Adopted a common fiscal policy for member nations
- b. Established a common system of agricultural price supports
- c. Disbanded all tariffs among its member countries
- d. Levied common tariffs on products imported from nonmembers

23. *When the United States, Canada, and Mexico form a free trade area, and Mexico begins importing a product from Canada rather than from the lowest cost world producer.*

- a. Trade diversion occurs
- b. Trade creation occurs
- c. World welfare rises
- d. World welfare falls to zero

24. *When the formation of a free trade area results in the reduction of trade with nonmember nations in favor of member countries, ____ occurs.*

- a. Trade devaluation
- b. Trade revaluation
- c. Trade creation
- d. Trade diversion

25. *Which country is not a member of the European Union?*

- a. Spain
- b. Germany
- c. France
- d. Iceland

26. *The implementation of the European Union has:*

- a. Made it harder for Americans to compete against the Germans in the British market
- b. Made it easier for Americans to compete against the Germans in the British market
- c. Made it harder for Americans to compete against the Japanese in the British market



- d. Made it easier for Americans to compete against the Japanese in the British market

27. *The common agricultural policy of the European Union has:*

- a. Increased American farm exports to the EU
- b. Decreased American farm exports to the EU
- c. Lowered the price of American farm exports to the EU
- d. Not affected the price of American farm exports to the EU

28. *The implementation of a common market involves all of the following except:*

- a. Elimination of trade restrictions among member countries
- b. A common tax system and monetary union
- c. Prohibition of restrictions on factor movements
- d. A common tariff levied in imports from nonmembers

29. *Under the common agricultural policy, exports of any surplus quantities of EU produce are encouraged through the usage of:*

- a. Variable levies
- b. Export subsidies
- c. Import quotas
- d. Countertrade

30. *In 1989 Canada and the United States agreed to implement a (an) _____ over a ten year period.*

- a. Customs union
- b. Common market
- c. Free trade area

- d. Economic union

31. *In the United States, the proposed North American Free Trade Agreement was generally supported by:*

- a. Labor unions
- b. Electronics firms
- c. Environmentalists
- d. Citrus producers

32. *At the Maastricht Summit of 1991, European Union negotiators called for the pursuit of a:*

- a. Free trade area
- b. Customs union
- c. Common market
- d. Monetary union

33. *By removing discriminatory government procurement laws within the European Union, member nations hoped to benefit from all of the following except:*

- a. EU governments could purchase from the cheapest foreign suppliers
- b. Increased competition occurs as domestic firms compete with foreign firms previously shut out of the domestic market
- c. Industries are restructured which permits surviving firms to achieve economies of scale
- d. Agricultural prices fall as more farmers are allowed to produce their commodities

34. *Suppose that government procurement liberalization results in the U.K. government importing automobiles from Germany, the low-cost EU manufacturer. Cost savings could result from all of the following except:*

- a. Competition effect
- b. Scale-economy effect
- c. Protective effect
- d. Trade effect

35. *Suppose that steel from Japan faces a 20 percent tariff in France and a 25 percent tariff in Italy, while France and Italy maintain free trade between each other. France and Italy are therefore part of a (an):*

- a. Free trade area
- b. Customs union
- c. Common market
- d. Economic union

36. *Suppose that Mexico and Canada form a free-trade area and Canada begins importing steel from Mexico rather than from Germany. There occurs:*

- a. Trade diversion
- b. Trade creation
- c. Trade destruction
- d. Trade exhaustion

37. *Suppose that Mexico and Canada form a free-trade area. Mexicans then decrease auto manufacturing and increase imports of autos from Canada, while the Canadians decrease computer production and import more computers from Mexico. This is an example of:*

- a. Trade diversion

- b. Trade creation
- c. Trade destruction
- d. Trade exhaustion

38. *If the United States and Canada abolish all tariffs on each other's goods and implement a common tariff on goods imported from other countries, there occurs a (an):*

- a. Free-trade area
- b. Customs union
- c. Common market
- d. Economic union

39. *Suppose that the United Kingdom and Italy abolish all tariffs on each other's goods and all restrictions on movements of factors of production between them. They also implement a common protectionist policy toward other countries. This is an example of a (an):*

- a. Free-trade area
- b. Customs union
- c. Common market
- d. Economic union

40. *The North American Free Trade Agreement was expected to benefit _____ the most.*

- a. Canada
- b. Mexico
- c. Greenland
- d. United States

41. *The North American Free-Trade Agreement was most strongly opposed by U.S.:*

- a. Electronics manufacturers
- b. Labor unions
- c. Commercial banks
- d. Engineering companies

42. *In the United States, which group was most likely to be hurt by the North American Free Trade Agreement?*

- a. Unskilled labor
- b. Skilled labor
- c. Owners of capital equipment
- d. Owners of financial capital

43. *By joining NAFTA, the United States, Canada, and Mexico would find their short-run welfare decreasing due to the:*

- a. Economies of scale effect
- b. Business investment effect
- c. Trade creation effect
- d. Trade diversion effect

44. *When Mexico became a part of NAFTA, along with Canada and the United States, it:*

- a. Eliminated tariffs against Canada and the United States but maintained them against nonmembers
- b. Eliminated tariffs against Canada, the United States, and all nonmember countries

- c. Increased tariffs against Canada the United States, and all nonmember countries
- d. Increased tariffs against Canada and the United States, but did not change them against nonmember countries

45. *Among the benefits that a regional trading arrangement can provide are all of these EXCEPT:*

- a. economies of large scale production
- b. specialization fostering
- c. attracting foreign investment
- d. a shorter production time

46. *Regarding the benefits of regional trade agreements, which of the following is NOT a benefit?*

- a. regional trade agreements may help manage immigration flows
- b. regional trade agreements promote regional security
- c. regional trade agreements may help lock in policy shifts towards market oriented reform
- d. regional trade agreements may promote democracy

47. *Smaller nations may seek safe haven trading arrangements with larger nations when future access to that market seems uncertain. This was reason for the formation of:*

- a. WTO
- b. GATT
- c. NAFTA
- d. none of these

48. *As new regional trading arrangements are formed, the opportunity cost of remaining outside:*

- a. increases
- b. decreases
- c. remains stable
- d. none of these

49. *Regarding the interests of a nonmember nation of a regional trading agreement:*

- a. the exporting interests of the nonmember nation outweigh its import competing interests
- b. the import competing interests of the nonmember nation outweigh its exporting interests
- c. the nonmember nation will have a better negotiating position
- d. the nonmember nation has no interest in the regional trading arrangement

50. *The WTO's efforts to promote trade liberalization globally:*

- a. have become easier
- b. have become more difficult
- c. have remained stable
- d. none of these is correct

51. *All of the following are factors mitigating against global trade liberalization EXCEPT:*

- a. regional trading arrangements may limit trade liberalization with outsiders

- b. a small nation might do better entering into a pact with a larger nation, rather than competing globally
- c. trading bloc members may not realize economies of scale through global liberalization
- d. trading bloc members prefer competing globally rather than locally

52. *Regarding a common market, which of the following is true?*

- a. permits the free movement of goods and service among members
- b. exercises common external trade restrictions against outsiders
- c. represents a more complete integration of member nations than a customs union
- d. all of these are true

53. *The United States serves as an example of:*

- a. a common market
- b. a common union
- c. a monetary union
- d. a free trade area

54. *The task of creating an economic union is:*

- a. difficult
- b. relatively easy
- c. similar to creating a customs union
- a. d. None of the above

55. *Suppose that Canada has domestic firms that could supply its entire market for radios at a price of \$50, while U.S. firms could supply radios at \$40 and Mexico at \$30. Suppose that Canada initially has a 50 percent tariff on imports*

of radios and then forms a free trade area with the United States. As a result, Canada realizes:

- a. Trade creation, no trade diversion, and overall welfare gains
- b. Trade creation, no trade diversion, and overall welfare losses
- c. Trade diversion, no trade creation, and potential overall welfare losses
- d. Trade diversion, trade creation, and potential overall welfare gains

56. *Suppose that Canada has domestic firms that could supply its entire market for radios at a price of \$50, while U.S. firms could supply radios at \$40 and Mexico at \$30. Suppose that Canada initially has a 50 percent tariff on imports of radios and then forms a free trade area with Mexico. As a result, Canada realizes:*

- a. Trade creation, no trade diversion, and overall welfare gains
- b. Trade creation, no trade diversion, and overall welfare losses
- c. Trade diversion, no trade creation, and potential overall welfare losses
- d. Trade diversion, trade creation, and potential overall welfare gains

57. *As of 2002, members of the European Monetary Union agreed to replace their currencies with the:*

- a. mark
- b. dollar
- c. franc
- d. euro

58. *The formation of the European Monetary Union is expected to entail benefits for member countries which include all of the following except:*

- a. Greater certainty for investors within the EMU
- b. Lower costs of transactions within the EMU

- c. Independent monetary policies run by the central bank of each member country
- d. Enhanced competition among companies in member countries

59. *According to the theory of optimum currency areas, a currency area has the least chance for success when:*

- a. Countries of the currency area have differing business cycles
- b. Workers have a high degree of mobility across borders of the currency area
- c. Prices and wages can be adjusted in response to economic disturbances
- d. A single monetary policy affects all member countries in the same manner

60. *A main disadvantage of the European Monetary Union is that:*

- a. Each member country loses the use of monetary policy as to tool to combat recession
- b. There is a high degree of labor mobility among the member countries
- c. Prices are highly flexible in response to changing economic conditions
- d. Wages are highly flexible in response to changing economic conditions

61. *World welfare under a customs union*

- a. Increases due to a trade creation effect
- b. Decreases due to a trade diversion effect
- c. Depends on the relative strength of the trade creation effect and the trade diversion effect
- d. All of the above

62. *A common market*

- a. Allows the imposition of common external trade barriers against non-members
- b. Represents less economic integration than a free trade area
- c. Does not permit free movement of goods among member nations
- d. Does not allow free movement of factors of production among nations

63. *The gains from having an optimum currency include*

- a. Price differentiation
- b. Lower competition
- c. Lower transaction costs
- d. Both b and c

64. *Luxembourg is a member of:*

- a. a free trade area
- b. a monetary union
- c. Benelux
- d. Both a and c

65. *The European Union protects its agricultural producers from import competition by the use of tariff rates that vary directly with world prices.*

- a. True
- b. False

66. *Under the variable levy system of the European Union, EU farmers are protected against import competition by tariffs that vary inversely with the world price.*

- a. True
- b. False

67. *Trade creation tends to more than offset trade diversion for a home country forming a customs union with partner countries when: (1) the tariff rate in the home country is high prior to the formation of the customs union; (2) there are a large number of countries forming the customs union.*

- a. True
- b. False

68. *If Chile and Mexico form a free-trade agreement, the welfare of the two countries will necessarily increase.*

- a. True
- b. False

69. *If Chile and Mexico abolish all tariffs on each other's products while maintaining their own tariffs against other countries, these two countries have formed a customs union.*

- a. True
- b. False

70. *With a preferential trading arrangement, a group of countries agrees to unilaterally reduce tariffs applied to imports from all countries of the world.*

- a. True
- b. False

71. *Economic integration is the process of eliminating restrictions on international trade, payments, and factor mobility.*

- a. True
- b. False

72. *When a group of countries establish a free-trade area, they achieve the highest stage of economic integration.*

- a. True
- b. False

73 *A free-trade area is an association of trading countries whose members agree to remove all trade restrictions among themselves, while each member country imposes identical trade restrictions against nonmember countries.*

- a. True
- b. False

74. *If the United Kingdom and Italy eliminate all tariffs on each other's goods and all restrictions to factor movements between them, and implement a uniform system of import restrictions against the rest of the world, these countries have formed a common market.*

- a. True
- b. False

75. *The highest stage of economic integration is a monetary union.*

- a. True
- b. False

76. *Trade creation would occur if Canada and the United States form a free-trade area, and Canadians then import less steel from the United States while importing more steel from Japan.*

- a. True
- b. False

77. *Suppose that Mexico and Canada form a free-trade area. The Mexicans then decrease refrigerator manufacturing and increase imports of refrigerators from Canada, while the Canadians decrease auto manufacturing and import more autos from Mexico. This is an example of trade creation.*

- a. True
- b. False

78. *Trade creation and trade diversion refer to the short run (static) effects of economic integration while economies of scale, stimulus to investment, and effects on competition refer to the long run (dynamic) effects.*

- a. True
- b. False

79. *For countries forming a customs union, the trade-creation effect represents a welfare loss and the trade-diversion effect represents a welfare gain.*

- a. True
- b. False

80. *In the short run, Mexico would realize overall welfare gains from becoming a member of the North American Free Trade Agreement if the resulting diseconomies of scale effect more than offset the competition effect.*

- a. True
- b. False

81. *Trade creation occurs when imports from a low-cost supplier outside of a customs union are replaced by purchases from a higher-cost supplier within the union.*

- a. True
- b. False

82. *If a customs union includes the low-cost supplier of the world, there would be no adverse trade-diversion effect that would counteract the positive trade-creation effect.*

- a. True
- b. False

83. *The potential for trade diversion is smaller when a custom union's external tariff is lower rather than higher.*

- a. True
- b. False

84. *If a customs union included all of the countries in the world, there could exist only trade creation, not trade diversion.*

- a. True
- b. False

85. *The larger the size and the greater the number of countries in a customs union, the greater will be the trade-diversion effect.*

- a. True
- b. False

86. *Over the long run, the formation of a customs union may yield welfare gains due to economies of scale, greater competition, and stimulus to investment.*

- a. True

b. False

87. *By the mid-1990s, the European Union had essentially achieved the common market stage of economic integration.*

a. True

b. False

88. *At the Maastricht Summit of 1991, members of the European Union expressed the goal of achieving the common market stage of economic integration.*

a. True

b. False

89. *To protect its farmers from foreign competition, the European Union has utilized variable import levies and export subsidies.*

a. True

b. False

90. *To protect its farmers from imports of agricultural goods, the European Union has implemented tariff rates that vary directly with world prices.*

a. True

b. False

91. *As of 1992, the European Union had achieved the monetary union stage of economic integration.*

a. True

b. False

92. *The Maastricht Treaty of 1991 established a blueprint for economic union and monetary union for European Union members.*

- a. True
- b. False

93. *It is generally agreed that completing the common market stage of integration for the European Union contributed to overall welfare losses due to trade diversion exceeding trade creation.*

- a. True
- b. False

94. *Government procurement liberalization permits a country to realize cost savings resulting from the trade effect, competition effect, and economies-of-scale effect.*

- a. True
- b. False

95. *During the 1980s and 1990s, the United States negotiated free-trade agreements with Israel, Mexico, and Canada.*

- a. True
- b. False

96. *Forming a free-trade agreement with the United States provided Canadian producers a danger and an opportunity. The danger was that U.S. producers might be more price competitive than Canadian producers; the opportunity was that longer production runs for Canadian producers, made possible by a free-trade agreement, would result in cost reductions due to economies of scale.*

- a. True
- b. False

97. Some trade creation was expected to occur as a result of the U.S.-Canada free-trade agreement, since Canadian exports to the United States and U.S. exports to Canada were expected to expand at the expense of imports from Germany and Japan that faced trade restrictions.

- a. True
- b. False

98. Negotiating the North American Free Trade Agreement was relatively easy since it involved meshing two large industrial countries with a developing country.

- a. True
- b. False

99. Critics of the North American Free Trade Agreement maintained that it would result in manufacturing firms fleeing Mexico's stringent pollution-control policies and relocating in the United States and Canada.

- a. True
- b. False

100. U.S. labor unions argued against the North American Free Trade Agreement on the grounds that it would result in U.S. companies relocating in Mexico in order to take advantage of lower wage rates.

- a. True
- b. False

101. The North American Free Trade Agreement was expected to provide proportionately smaller benefits to Mexico than to the United States or Canada.

- a. True
- b. False

102. All welfare consequences of a regional trading arrangement are dynamic

- a. True
- b. False

103. All welfare effects of a regional trading agreement are static.

- a. True
- b. False

104. Within a customs union, broader markets may also promote greater competition among producers.

- a. True
- b. False

105. Following World War II, Western European nations suffered from balance-of-payments deficits due to reconstruction.

- a. True
- b. False

106. When Western European democracies removed trade barriers and began to form the European Community, one of their hopes was that their economic and financial ties would bind them together so that it would not be in their interest to go to war again.



- a. True
- b. False

107. *The EU has abolished restrictions on agricultural products traded internally.*

- a. True
- b. False

EXERCISE 2

WHAT THE EU'S VALUES AND PRINCIPLES MEAN IN PRACTICE

Put a cross in the correct column for each of the nine questions below. In small groups, discuss what you think a country must do and should never do if it wants to be part of the EU.

<i>A country ...</i>	<i>(A) Can join the EU</i>	<i>(B) Cannot join the EU</i>
1. That does not have freedom of the press		
2. That applies the death penalty		
3. That allows its citizens to protest against the government		
4. In which the parliament is elected on a regular basis		
5. In which a president governs until death and is succeeded by a son or a daughter		
6. In which the army determines policy and may even intervene in internal affairs with military power		
7. In which people are considered innocent until their guilt has been established by a court		
8. In which there is only one party which is always in government		
9. Which protects minorities, even when the majority is against them		

EXERCISE 3

WHO DOES WHAT IN THE EU?

That was a lot of institutional background to take in! However, it is important to understand what so-called Brussels actually is and who is responsible for what in the EU. Take the test below to see how much you remember. Put a cross in the box against the institution(s) that match(es) the description.

<i>Who ...?</i>	<i>European Parliament</i>	<i>European Council</i>	<i>Council of the European</i>	<i>European Commission</i>	<i>European Court of Justice</i>
1. Makes proposals for EU laws					
2. Approves EU laws					
3. Consists of (only) one representative/member per EU country					
4. Is elected by EU citizens					
5. Executes the budget					
6. Represents the interests of citizens					
7. Represents the interests of EU countries/their governments					
8. Decides on the interpretation of EU laws					
9. Defines the general political direction of the EU					

EXERCISE 3

WHAT DOES FREE MOVEMENT MEAN FOR YOU IN PRACTICE?

Match the examples to the four aspects of the single market (free movement of people, goods, services and capital) and tick the appropriate box.

	<i>Free movement of people</i>	<i>Free movement of goods</i>	<i>Free movement of services</i>	<i>Free movement of capital</i>
1. I can buy a second-hand car abroad and take it back home without paying customs duties.				
2. I can travel anywhere I like within the EU.				
3. I can study in another EU country.				
4. My parents can have their bathroom renovated by a tiler from another EU country.				
5. My parents can send money to me in the country where I am studying.				
6. I can work in another EU country.				
7. I can buy goods online from another EU country without paying customs duties.				

*EXERCISE 4**WHICH COUNTRIES ARE IN THE EURO AREA?*

The table below lists all 28 EU countries. Tick the 19 that are in the 'euro area' and use the euro as their currency.

	Austria
	Belgium
	Bulgaria
	Croatia
	Cyprus
	Czech
	Denmark
	Estonia
	Finland
	France

	Germany
	Republic
	Hungary
	Ireland
	Italy
	Latvia
	Lithuania
	Greece
	Malta
	Netherlands

	Poland
	Portugal
	Romania
	Luxembourg
	Slovakia
	Slovenia
	Spain
	Sweden
	United Kingdom

*EXERCISE 5**THE EU IN THE WORLD*

Here are some examples of what the EU does in the world. Pick the three that are the most important to you and explain your reasons for choosing them. Compare your answers with those of your classmates.

	The EU has led and supported peace talks around the world to stop conflicts.
	The EU stands for democracy and the rule of law throughout the world. It has made human rights a central aspect of its relations with other countries.
	Internationally, the EU works to fight terrorism, organised crime and illegal migration.
	The EU has taken a lead in the global fight against climate change.
	The EU and its Member States together constitute the world's largest donors of development aid. This contribution makes a huge difference to millions of people around the world.
	The EU also promotes development through trade by opening its markets to exports from developing countries and by encouraging them to increase trade among themselves.
	The EU and its Member States together constitute the world's largest donors of humanitarian aid. They provide life-saving aid to the victims of disasters, to refugees and to others in dire need.

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Internet sources:

- eur-lex.europa.eu
- europa.eu
- ena.lu
- ecb.int

Appendix

1.1 Answers to test questions

1) d	2) c	3) a	4) a
5) d	6) c	7) a	8) b
9) c	10) d	11) c	12) d
13) c	14) b	15) d	16) c
17) d	18) b	19) b	20) a
21) b	22) a	23) a	24) d
25) d	26) a	27) b	28) d
29) b	30) c	31) b	32) d
33) d	34) c	35) a	36) a
37) b	38) b	39) c	40) b
41) b	42) a	43) d	44) a
45) d	46) d	47) c	48) a
49) a	50) b	51) d	52) d
53) c	54) a	55) d	56) a
57) d	58) c	59) a	60) a
61) d	62) a	63) c	64) d
65) b	66) a	67) a	68) b
69) b	70) b	71) a	72) b
73) b	74) a	75) a	76) b
77) a	78) a	79) b	80) b
81) b	82) b	83) a	84) a
85) b	86) a	87) a	88) b
89) a	90) b	91) b	92) a
93) b	94) a	95) a	96) a
97) a	98) b	99) b	100) a
101) b	102) b	103) b	104) a
105) a	106) a	107) a	

1.2 Answer to the exercises

EXERCISE 2

WHAT THE EU'S VALUES AND PRINCIPLES MEAN IN PRACTICE

Solution

Part 1. Put a cross in the correct column for each of the nine questions below. In small groups, discuss what you think a country must do and should never do if it wants to be part of the EU.

<i>A country ...</i>	(A) <i>Can join the EU</i>	(B) <i>Cannot join the EU</i>
1. That does not have freedom of the press		X
2. That applies the death penalty		X
3. That allows its citizens to protest against the government	X	
4. In which the parliament is elected on a regular basis	X	
5. In which a president governs until death and is succeeded by a son or a daughter		X
6. In which the army determines policy and may even intervene in internal affairs with military power		X
7. In which people are considered innocent until their guilt has been established by a court	X	
8. In which there is only one party which is always in government		X
9. Which protects minorities, even when the majority is against them	X	

EXERCISE 3 Solution

WHO DOES WHAT IN THE EU?

That was a lot of institutional background to take in! However, it is important to understand what so-called Brussels actually is and who is responsible for what in the EU. Take the test below to see how much you remember. Put a cross in the box against the institution(s) that match(es) the description.

<i>Who ...?</i>	<i>European Parliament</i>	<i>European Council</i>	<i>Council of the European Commission</i>	<i>European Court of Justice</i>
1. Makes proposals for EU laws			X	
2. Approves EU laws	X		X	
3. Consists of (only) one representative/member per EU country		X	X	X
4. Is elected by EU citizens	X			
5. Executes the budget			X	
6. Represents the interests of citizens	X			
7. Represents the interests of EU countries/their governments		X	X	
8. Decides on the interpretation of EU laws				X
9. Defines the general political direction of the EU		X		

EXERCISE 4 Solution

WHAT DOES FREE MOVEMENT MEAN FOR YOU IN PRACTICE?

Match the examples to the four aspects of the single market (free movement of people, goods, services and capital) and tick the appropriate box.

	<i>Free moveme nt of people</i>	<i>Free moveme nt of goods</i>	<i>Free moveme nt of services</i>	<i>Free moveme nt of capital</i>
1. I can buy a second-hand car abroad and take it back home without paying customs duties.		X		
2. I can travel anywhere I like within the EU.	X			
3. I can study in another EU country.	X			
4. My parents can have their bathroom renovated by a tiler from another EU country.			X	
5. My parents can send money to me in the country where I am studying.				X
6. I can work in another EU country.	X			
7. I can buy goods online from another EU country without paying customs duties.		X		

*EXERCISE 4**WHICH COUNTRIES ARE IN THE EURO AREA?*

The table below lists all 28 EU countries. Tick the 19 that are in the 'euro area' and use the euro as their currency.

X	Austria
X	Belgium
	Bulgaria
	Croatia
X	Cyprus
	Czech Republic
	Denmark
X	Estonia
X	Finland
X	France

X	Germany
X	Greece
	Hungary
X	Ireland
X	Italy
X	Latvia
X	Lithuania
X	Luxembourg
X	Malta

X	Netherlands
	Poland
X	Portugal
	Romania
X	Slovakia
X	Slovenia
X	Spain
	Sweden
	United Kingdom